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City of Mercer Island
Section I
Budget Policies

Section I. Budget Policies

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BUDGET POLICES

General Government

This section includes budget polices on the following:

- Beautification Fund
- Communications
- Debt Financing
- Investment Earnings
- LEOFFI Retiree costs
- Long-Term Compensation Strategy
- Property Tax
- Capital Reserve Fund
- Contingency Fund
- Risk Management
- Sustainability



Budget Policies

Beautification Fund

Background

The Beautification Fund was created in 1980 by Council ordinance. According to the ordinance, Business and Occupation Tax (B&O) revenues are deposited into the Beautification Fund.

The stated purposes of the Beautification Fund are:

- Installation and maintenance of landscaping, including plants and other landscaped materials on public property or easements;
- Acquisition, operation, and maintenance of any building, facility, property, or easement for park, recreation, or open space purposes;
- Undergrounding of power lines and lighting facilities for the operation and maintenance thereof on public property or easements;
- Promotion and support of a Central Business District (CBD) revitalization program;
- Promotion, support, acquisition, and installation of public art on public property or easements;
- Acquisition or leasing of parking spaces for Mercer Island residents for the purpose of providing additional parking;
- Enforcement of parking restrictions, providing signage related to parking, providing permits, and any other expenses related to parking restrictions; and
- All expenses including, but not limited to, professional fees, printing, and publishing incurred in connection with the above-listed purposes.

Effective January 1, 2006, the Council simplified the B&O tax structure increasing the annual exemption amount from \$20,000 to \$150,000, establishing a uniform tax rate of 0.10%, and changing the annual gross receipts threshold for filing quarterly B&O tax returns from \$100,000 to \$1,000,000. In addition to simplifying the tax structure for businesses, this action served to simplify the administrative process for City staff.

Historically, expenditures of the Beautification Fund have included the following: median and planter maintenance in the Town Center, holiday lighting program, Chamber of Commerce support, I-90 corridor landscaping maintenance, restricted parking program administration, business licensing, business and occupation tax administration, and City financial support for Mary Wayte Pool operations and maintenance. Since the creation of the fund, a substantial sum has been spent on beautification projects, and the broad language of the Code has been construed to permit a variety of undertakings.

Budget Policies for 2017-2018

- Maintain current service levels regarding median and planter maintenance in the Town Center, holiday lighting in the Town Center, Chamber of Commerce support, I-90 corridor landscaping maintenance, restricted parking program administration, business licensing, business and occupation tax administration, and City financial support for Mary Wayte Pool operations and maintenance.
- Provide funding for Light Rail Station Planning (\$50,000 in 2017).

Budget Policies

2017-2018 Budget Impact

Description	2015	2016	2017	2018	Percent Change	
	Actual	Forecast	Budget	Budget	16-17	17-18
RESOURCES						
Budgeted						
Beginning Fund Balance	\$ -	\$ 107,420	\$ -	\$ -	-100.0%	N/A
Business and Occupation Tax	570,658	605,000	641,000	673,000	6.0%	5.0%
Permit Parking Program	4,035	3,000	4,000	3,000	33.3%	-25.0%
Landscaping Services (WSDOT)	485,882	492,584	500,502	510,000	1.6%	1.9%
Interfund Transfer - General Fund	106,314	32,600	-	-	-100.0%	N/A
Other Services and Charges	435	-	-	-	N/A	N/A
Total Budgeted Resources	\$ 1,167,324	\$ 1,240,604	\$ 1,145,502	\$ 1,186,000	-7.7%	3.5%
Not Budgeted						
Beginning Fund Balance (Reserved)	815,713	809,251	963,988	1,142,661	19.1%	18.5%
TOTAL RESOURCES	\$ 1,983,037	\$ 2,049,855	\$ 2,109,490	\$ 2,328,661	2.9%	10.4%
USES						
Budgeted						
Chamber of Commerce	\$ 14,400	\$ 14,400	\$ 14,400	\$ 14,400	0.0%	0.0%
Financial Services \ Parking Program	16,214	13,000	15,100	16,800	16.2%	11.3%
Economic Development	191,455	125,320	-	-	-100.0%	N/A
Town Center Beautification	96,040	149,900	168,446	172,231	12.4%	2.2%
Mary Wayte Pool Operations	126,500	129,300	132,533	135,846	2.5%	2.5%
I-90 Landscape Maintenance	605,481	583,947	586,350	600,623	0.4%	2.4%
MICEC Master Plan	-	25,000	-	-	-100.0%	N/A
Light Rail Station Planning	-	-	50,000	-	N/A	-100.0%
Interfund Transfer - CIP	16,276	45,000	-	-	-100.0%	N/A
Total Budgeted Expenditures	\$ 1,066,366	\$ 1,085,867	\$ 966,829	\$ 939,900	-11.0%	-2.8%
Not Budgeted						
Ending Fund Balance	916,671	963,988	1,142,661	1,388,761	18.5%	21.5%
TOTAL USES	\$ 1,983,037	\$ 2,049,855	\$ 2,109,490	\$ 2,328,661	2.9%	10.4%

Communications

Background

Establishing Communications as a Government Priority

Recognizing the importance of an informed and engaged citizenry to promoting the democratic decision making process and to achieving the City's service mission, the City of Mercer Island established public communication and community involvement as a government priority in 2004.

“Community will support open and informed public involvement processes within the structure of representative, democratic decision making.”

In 2006 the City established public communication and community involvement as a government priority, developed a plan to coordinate communication and civic engagement efforts, and the City Council authorized the City Manager to add a Communications Coordinator as a new full time position on City staff. Unfilled for several years in the past, the Communications Manager role is now a 0.60 FTE, coupled with the 0.40 FTE Sustainability Manager position, and performed by one individual.

The Roles and Responsibilities of the part time Communications Manager

The Communications Manager provides communications and public involvement support to all City departments and the Council. The primary roles and responsibilities include:

- Serving as the primary media contact for the City of Mercer Island
- Supervising the consistent branding of all City operations, materials, and assets
- Overseeing the high-level communications products used by each department
- Managing targeted communications and outreach strategies for individual City department initiatives
- Producing City-wide communications materials and distributing via print, mail, website, social media, Email, and other channels
- Jointly administering the City's website, adding news items, updating content, and designing new webpages for specific programs and initiatives
- Overseeing limited MI-TV broadcast production and programming
- Planning strategy and implementation for the City's major public involvement and community-meeting efforts
- Training and certifying as a Public Information Officer (PIO) to support the Mercer Island Emergency Operations Center in the event of a natural disaster or other crisis

Budget Policies for 2017-2018

- The Communications Manager will continue to be funded as a 0.60 FTE position, coupled with the 0.40 FTE Sustainability Manager position, to create a full time position. This 0.60 Communications Manager will provide a limited level of communication services needed to keep Mercer Islanders informed, compared to a full-time position.
- The following guidance outlines the proposed overarching goal for City communications in the 2017-2018 biennium under this model:

Grow new communications channels, especially those that rely less heavily on print and mail media, which are costly to produce and distribute. Enhance electronic communications via the City's website,

Budget Policies

electronic newsletter, and social media channels. Build collaborative relationships with individual departments to meet their communications needs. Serve as an accessible and visible public connection to the community of Mercer Island. Assist with implementation and promotion of new community-wide emergency alerting system.

2017-2018 Budget Impact

	2015	2016	2017	2018
Expenditures				
Salary and Benefits	\$ 77,310	\$ 71,062	\$ 79,325	\$ 81,942
MI TV (professional services)	6,925	4,000	7,000	7,000
Other operating costs	12,544	17,651	11,631	11,776
Total Expenditure	\$ 96,780	\$ 92,713	\$ 97,956	\$ 100,718

Debt Financing

Background

The City has prudently issued a very modest amount of debt over the years, maintaining a sizable debt capacity and consistently following a conservative fiscal management policy as reflected in the excellent bond ratings from Moody's rating service—Aa1 rating on its unlimited tax general obligation (UTGO), or voted, bonds, and a Aa1 rating on its limited tax general obligation (LTGO), or non-voted (i.e. Councilmanic), bonds. According to Moody's, only four cities have equivalent or higher UTGO bond ratings than Mercer Island: Seattle (Aaa), Bellevue (Aaa), Redmond (Aa1), and Kirkland (Aa1). As for the LTGO bond rating, Mercer Island has the highest rating in the state, along with Seattle and Bellevue. A high bond rating equates to lower interest costs and is very desirable.

The total amount of debt obligations for cities is limited by state law. Mercer Island has significant legal capacity for funding foreseeable debt issues. As of 12/31/2015, the available debt capacity is \$149,263,622 for non-voted general purposes, \$271,722,640 for voted general purposes, \$271,722,640 for voted open space and parks purposes, and \$271,722,640 for voted debt utility purposes.

In 2003, the City issued \$2.29 million in Councilmanic bonds to acquire the property on which the Community Center at Mercerview was sited. This was in preparation for building a new community center. In 2004, after a year of study and design, the Council authorized the construction of a new \$12.4 million community center. Most of that project was paid for with City reserves; however, \$2.04 million in Councilmanic bonds were issued to complete the financing package. Both of these bond issues are being funded by real estate excise taxes in the Capital Improvement Fund.

In 2007, the City Council authorized two separate contracts with Pierce Manufacturing to purchase the following through a lease purchase agreement with Municipal Asset Management: 1) two Velocity pumper fire trucks (\$1,035,026), and 2) one mini pumper fire truck (\$251,982). The remaining principal owed for the Velocity pumper trucks as of December 31, 2016 is \$122,687.

In 2009, the City issued \$10.36 million in Councilmanic bonds to finance the remaining balance of the Sewer Lake Line project (\$9.25 million) and to finance improvements to the South Mercer Playfields (\$990,000). The debt service on the Sewer Lake Line portion of the bonds is being funded by sewer utility rates; whereas, the debt service on the South Mercer Playfields portion of the bonds is being funded by general purpose revenues in the General Fund. By issuing GO bonds instead of revenue bonds, the City was able to take advantage of its excellent bond rating, reducing the interest rate by approximately 0.5%. In addition, the City issued a two year LTGO bond (\$1.015 million) in 2009 to initially fund the construction of an emergency water supply well. This was an interim financing strategy intended to buy time for the real estate market to recover. Given the slow recovery in the real estate market, the two year GO bond, which had a maturity date of June 1, 2011, was refinanced in 2010, with the due date extended to June 1, 2013 (in addition, the principal balance was reduced by \$40,000 using project savings on the emergency water supply well). The \$975,000 balance was paid off on June 1, 2013 after selling the City's First Hill water utility property in May 2013 for \$1.90 million.

In 2011, the City issued \$1.50 million in Councilmanic bonds to finance the unfunded balances of two water utility capital projects: First Hill Booster Pump Station Upgrade and First Hill Water System Improvements. The debt service is being funded by water utility rates. The remaining principal owed as of December 31, 2016 is \$1,160,000.

Budget Policies

In 2012, the City Council authorized a new contract with Pierce Manufacturing to purchase a third Velocity pumper fire truck through a lease purchase agreement with Municipal Asset Management (\$619,547). The outstanding principal owed as of December 31, 2016 is \$389,771.

In 2013, the City issued \$6.71 million in Councilmanic bonds to fund the replacement of Fire Station 92 and a Fire Rescue Truck and to refund the outstanding portion of the City's 2003 LTGO (related to the purchase of the Mercerview property) and 2004 LTGO bonds (related to the construction of the new community center). The debt service on the Fire Station 92 and Fire Rescue Truck portion of the bonds will be funded by a nine-year levy lid lift approved by Mercer Island voters on November 6, 2012. The remaining principal owed as of December 31, 2016 is \$2,905,000.

In 2015, the City Council authorized a new contract with Pierce Manufacturing to purchase a midi pumper fire truck through a lease purchase agreement with Municipal Asset Management (\$341,295). The outstanding principal owed as of December 31, 2016 is \$306,522.

Budget Policies for 2017-2018

- The City will confine long-term borrowing to approved capital improvement projects that cannot be financed from current revenues.
- The City will use debt financing only when the following conditions exist:
 - Object of the expenditure is a major new capital asset.
 - Object of the expenditure can be used by residents/taxpayers in the future.
 - There are insufficient existing capital revenues available.
 - All the revenue is needed at the same time (i.e. the project cannot be phased over time).
- When the City finances capital projects by issuing bonds, it will pay back the bonds within a period not to exceed the expected useful life of the project.
- The City will not use long-term debt for current operations.
- Per the fire apparatus replacement plan, the City will purchase one new fire maxi pumper (\$745,222) in 2018 through a 9 year lease purchase agreement, with the first lease payment beginning in 2019.

2017-2018 Budget Impact

Description	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
Voted Debt:				
	\$ -	\$ -	\$ -	\$ -
Total Amount to be Levied in Taxes	\$ -	\$ -	\$ -	\$ -
Non-Voted Debt:				
2003 Mercerview Property	\$ 164,300	\$ 161,200	\$ 158,100	\$ -
2004 CCMV Construction	132,400	135,200	137,900	135,500
2009 LTGO South Mercer Playfields	95,636	93,911	96,999	94,759
2009 LTGO Sewer Lake Line	676,513	677,313	676,858	680,098
2011 LTGO First Hill Water System	106,763	110,263	108,475	111,525
2013 LTGO Station 92 & Apparatus	614,700	614,000	618,100	616,900
Lease Obligations				
2007 Fire Velocity Pumpers	128,023	128,023	128,023	-
2007 Fire Mini Pumper	37,721	-	-	-
2012 Fire Velocity Pumpers	70,715	70,715	70,715	70,715
2015 Fire Apparatus	-	42,768	42,768	42,768
Total General Obligation Debt	\$ 2,026,772	\$ 2,033,394	\$ 2,037,938	\$ 1,752,265
Public Works Trust Fund Loans				
Sewer Lake Line	\$ 426,923	\$ 424,909	\$ 422,895	\$ 420,881
Total Public Works Trust Fund	\$ 426,923	\$ 424,909	\$ 422,895	\$ 420,881

Budget Policies

Investment Earnings

Background

The City pools its cash and invests it in various instruments authorized by the Revised Code of Washington. Most of the City's cash is invested in the Washington State Investment Pool and in U.S. Treasury and Agency obligations. To maximize interest earnings, all revenues distributed by the state are wired directly into a City account with the State Investment Pool.

For many years, all of the City's cash was invested in the State Investment Pool, because it was liquid, generated a good return, and required minimal staff time. Due to historic low returns, staff began investing available cash outside of the State Investment Pool in August 2012.

Based on the current policy, which has been in effect since January 1, 2013, investment earnings are first distributed to the following funds or reserves within a fund each quarter based on cash balance:

- LEOFF I Long-Term Care Reserve (which resides in the General Fund)
- Youth Services Endowment Fund
- Contingency Fund
- Fire Station 92 Construction Fund (this is a temporary distribution until the bond proceeds are fully spent and the project is closed out, which is anticipated in 2015)
- Water Fund
- Sewer Fund
- Storm Water Fund
- Fire Apparatus Replacement Reserve (which resides in the Equipment Rental Fund)
- Firemen's Pension Fund

Next, the investment earnings on all remaining invested cash are allocated to the Contingency Fund up to the current target balance (per the originally adopted budget). Finally, if there is an unallocated balance still remaining, it will be allocated to the General Fund.

Budget Policies for 2017-2018

- No changes to the current policy are planned. Staff will continue to actively invest available cash as time permits.

Budget Policies

2017-2018 Budget Impact

Investment Earnings	2015	2016	2017	2018
General Fund (LEOFFI Long Term Care)	\$ 3,508	\$ 6,000	\$ 6,000	\$ 6,000
Youth Services Endowment Fund	412	500	500	500
Contingency Fund	23,674	25,000	25,000	25,000
Station 92 Construction Fund	778	-	-	-
Water Fund	8,676	19,850	22,977	32,306
Sewer Fund	3,838	21,898	17,707	16,481
Storm Water Fund	5,231	20,200	16,060	14,256
Equipment Rental Fund (Fire Apparatus Reserve)	107	500	150	150
Firemen's Pension Fund	1,244	1,500	1,500	1,500
Total Investment Earnings	\$ 47,469	\$ 95,448	\$ 89,894	\$ 96,193

Pre-LEOFF & LEOFF I Retiree Costs

Background

Law Enforcement Officers and Fire Fighters (LEOFF) Retirement System membership is made up of all full-time law enforcement officers and fire fighters in the State of Washington. This retirement system was initiated in 1970, consolidating the several police pension systems of First Class cities and the municipal firemen's pension systems. As of October 1, 1977, LEOFF was divided into a two-tier system. All of those employed prior to October 1, 1977 became members of Plan I, and those first employed on or after October 1, 1977 became members of Plan II.

LEOFF Plan I provides the medical benefit of 100% reimbursement of all medically necessary expenses to each LEOFF Plan I member (members are persons who terminate service with five or more years of service but do not withdraw their contributions).

LEOFF Plan I membership consists of retired members who are relatively young in age. This young age means the greatest impact of medical costs remains in the future.

LEOFF Plan I Medical Benefit

One of the major distinctions between LEOFF Plan I and Plan II is the LEOFF Plan I medical benefit. This benefit is set forth as follows:

“Whenever any active member, or any member retired...on account of...sickness...not caused or brought on by dissipation or abuse, of which the disability board shall be judge, is confined in any hospital or in home, and whether or not so confined, requires medical services, the employer shall pay...the necessary medical services not payable from some other source...” [RCW 41.26.150(1)]

In other words, the employer is required to pay all of the necessary costs for medical services incurred by retired members that are not paid by insurance obtained by either the employer or Medicare. These costs range from simple visits to a physician to major surgical procedures and placement in a nursing home. The statutory definition clearly defines the minimum medical services covered. While the minimum medical services are defined, it is possible that the scope of these enumerated medical services may be increased by a separate entity known as the Disability Board.

Another important aspect of this medical benefit is the burden of payment. None of the cost is borne by retirement funds. Moreover, the state is not liable for any cost of this benefit. These costs are the complete responsibility of the individual LEOFF Plan I employer.

Disability Board

The local Disability Board is the key decision maker regarding the extent of LEOFF Plan I medical costs paid by the City. This board is responsible for the approval of medical care costs for LEOFF Plan I members within the jurisdiction.

The Disability Board is made up of two council members, one LEOFF Plan I retired police officer, one LEOFF Plan I active or retired firefighter, and one citizen at large. The Disability Board has the authority to decide the extent of what will actually be covered beyond the minimum LEOFF Plan I medical services and whether or not the expense is a reasonable medical necessity. A LEOFF Plan I member may appeal disability board decisions directly to the state.

Budget Policies

Insurance

The provisions of LEOFF Plan I make clear that the employer is expected to utilize insurance to reduce the financial liability of the risks connected with the medical benefit. The City of Mercer Island insures the LEOFF Plan I Police retirees through the Association of Washington Cities (AWC) Employees' Benefits Trust. The trust has entered into contracts with Regence Blue Shield to provide indemnity health care coverage and with Group Health Cooperative to provide managed health care coverage. The City insures the LEOFF Plan I Fire retirees through the LEOFF Health and Welfare Trust. However, neither of these medical insurance plans covers expenses related to long-term care services. Uncovered medical and long-term care costs must be reimbursed directly to the retiree or medical provider by the City.

The Association of Washington Cities through its Employee Benefit Trust offers long-term care insurance plans underwritten by UNUM Life Insurance Company of America. This Plan is structured to primarily meet the LEOFF Plan I liability for nursing home and in-home care expenses. In 1996, 2002, and 2011, the City of Mercer Island received quotes directly from UNUM Life Insurance Company of America to cover the LEOFF Plan I members. The City found that the annual cost was prohibitive and coverage was limited to 60 percent of the total long-term care expenses. Additionally, several LEOFF Plan I members were not insurable based on their health history.

Government entitlement programs don't offer complete protection either. Medicare was designed to help older people pay for the same kind of acute care as traditional health insurance, and it provides only limited post-hospital care. In fact, Medicare pays for less than 5 percent of long-term care costs. Medicaid, designed for low-income individuals, currently covers about half of the bills for nursing home residents. But the program has strict eligibility requirements that force middle-income participants to spend down their personal assets. The vast majority of Mercer Island's LEOFF Plan I members would be ineligible for Medicaid benefits.

Mercer Island Disability Board Long-Term Care and Nursing Facility Care Rule

The Disability Board approved long-term care and nursing facility care procedures in October 2002. These rules require the City to pay for long-term care expenses based upon the average cost of three (3) nursing facilities or services in the member's geographic locality for 24 hour-a-day care in a private room. The Disability Board Secretary will determine the three (3) nursing facilities or services that will be used to average the cost.

To date, the City has experienced three long-term care reimbursement claims. In February 2003, the City paid a total of \$58,146 to satisfy its first claim for long-term care expenses. The second claim amounted to \$99,011 in 2004 and 2005. The third claim amounted to \$255,422 between May 2013 and April 2016.

There are thirty-five (35) remaining City of Mercer Island LEOFF I retirees. The potential for future claims for long-term care expenses is significant.

Firemen's Pension Fund

This fund accounts for pension benefits available to all firefighters hired on or before March 1, 1970. On that date the LEOFF retirement plan was established. Each city maintaining a Firemen's Pension Fund is responsible for paying all pension benefits to eligible members or their survivors. To help cover the

costs, each city with a Firemen’s Pension Fund receives a proportionate distribution of fire insurance premium taxes from the state.

Funding Sources

Every three years, the City contracts for an actuarial valuation of the following liabilities:

- Pension benefits for retired firefighters hired on or before March 1, 1970;
- LEOFF I retiree medical benefits; and
- LEOFF I retiree long-term care benefits.

The most recent actuarial valuation was conducted in 2014, calculating the total liabilities, unfunded liabilities, and dedicated assets for each retiree benefit as of January 1, 2014. Beginning in 2012, the Council voted to use \$52,820 (or 0.5%) of its property tax “banked capacity” to help fund firefighters’ pension benefits and LEOFF I long-term care benefits on an ongoing basis. The \$52,820 is split 50/50 between the two liabilities. Beginning in 2015, the Council voted to use \$56,590 of its remaining “banked capacity” to provide additional funding for LEOFF I long-term care benefits. In addition, \$80,000 per year was budgeted in 2015 for the long-term care costs of one Fire LEOFF I retiree. This is intended to be a permanent funding source going forward, growing 5 percent per biennium. Finally, LEOFF I retiree medical benefits are fully funded each year in the General Fund budget. Summary information regarding these three retiree benefits is provided in the table below.

Description	Firefighters’ Pension Benefits	LEOFF I Retiree Medical Benefits	LEOFF I Retiree LTC Benefits
# of retired employees, 12/31/16	6 Fire	24 Police 11 Fire	24 Police 11 Fire
Total estimated liability	\$2,181,042 (1/1/16)	\$5,256,000 (1/1/14)	\$5,370,000 (1/1/14)
Total dedicated assets (reserved), 1/1/16	\$923,225 (Firemen’s Pension Fund)	\$0	\$1,181,487 (LEOFF I Retiree LTC Reserve in General Fund)
Dedicated future revenues (2017 and beyond)	Fire insurance premium tax: \$30,000/yr Property tax: \$26,410/yr Investment interest: Varies based on cash balance in Firemen’s Pension Fund	Budgeted annually in General Fund	General Fund revenues: \$84,000/yr + 5% per biennium Property tax: \$83,000/yr Investment interest: Varies based on cash balance in reserve
Funded through year	2030	Fully funded	2033

Budget Policies for 2017-2018

- A pension and other post-employment benefits actuarial valuation is required by GASB every two years. Accordingly, the next actuarial valuation is scheduled for 2018.

Budget Policies

- In 2017-2018, \$84,000 per year is being budgeted for the long-term care costs. Any unspent balance will go to the LEOFF I long-term care reserve at year-end.
- The annual property tax levy amount dedicated to LEOFF I long-term care benefits is \$83,000 per year.

2017-2018 Budget Impact

Description	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
Retiree Medical Premiums	\$ 279,548	\$ 298,500	\$ 290,400	\$ 306,600
Retiree Direct Medical Reimbursements	113,538	99,000	115,000	115,000
Total General Fund Expenditures	\$ 393,085	\$ 397,500	\$ 405,400	\$ 421,600

Long-Term Compensation Strategy

Background

This budget policy recognizes the significance of the fact that 72% of the City's 2017-2018 General Fund budget is devoted to salary and benefits for employees. The City's employees are the means by which basic municipal services and Council policy directives are implemented.

The primary objectives of this compensation strategy are to build both flexibility and predictability into our human resources systems. Forces such as the regional economy and labor market are outside of local control. Nevertheless, it is in the City's best interest to anticipate, when possible, factors that drive compensation decisions.

This budget policy outlines the philosophy and assumptions underlying the City's compensation strategy. To implement it, specific actions will be taken during the next two years. These are listed below in the section titled *Budget Policy for 2017-2018*.

Compensation Strategy

- For all employee groups, total compensation includes base pay, performance pay, and other compensation.
- Approved full and part-time positions represent valuable labor potential. Therefore, vacant positions must be carefully reviewed before they are filled.
- When a healthy economic climate exists, our goal is to remain competitive at approximately the mid-point of the comparable market. We look at comparable positions in the public (and sometimes private) employment sectors for our labor market.
- When identifying appropriate comparable cities for conducting a market analysis, we choose organizations based primarily on the following criteria: full service cities, population (20,000-85,000), Puget Sound location (King County and south Snohomish County, excluding Pierce, Thurston, and Kitsap Counties), number of employees (150-650), and number of job matches.
- When possible, increases in pay will be tied to exceeding defined performance standards.
- Employees must share in the cost of their health care benefits.
- Compensation decisions (including labor negotiations) will be made using the best data available.

The City's philosophy strives to create a balance between fair and equitable pay for employees, enabling management to recognize and reward excellent performance while exercising fiscal prudence by keeping the City's salary budget within its fiscal ability to pay.

As a general rule, the City's policy is to make sure that every job is classified and employees are fairly compensated when compared either internally or externally. It is also the policy of the City to ensure that salaries are benchmarked to the midpoint of the defined market. An employee's salary may be fixed at 5% less than the midpoint of the market to allow for those who may require significant on-the-job training to be hired at an entry level. In extraordinary circumstances, such as to attract or retain valued employees, the City Manager has latitude to set salary outside the range.

Competitive Compensation for the Non-Union Workforce

Compensation recognition awards and/or increases may occur for one or more of the following reasons:

- I. Incentive to recognize work quality and/or quantity, either for exceptional performance, customer service, creating efficiencies, or team performance.

Budget Policies

2. The temporary addition of substantial responsibilities (such as temporary assignment or extra duty).
3. Special achievement.

Salary increases may occur as a condition of satisfactory completion of a probationary period. Starting salaries are set at an amount that does not exceed the midpoint of the defined market.

Salary adjustments resulting from performance and annual compensation guidelines must be approved by the Human Resources Director, Finance Director and City Manager.

Performance Awards/Merit Pay

Funds are set aside for performance awards as part of the appropriation made by the City Council for all non-represented employees. The Human Resources Director, Finance Director and City Manager will approve performance awards to reward behaviors and performance consistent with the mission of the department and the City's vision. Performance awards will follow the guidelines set forth below:

1. Non-represented employees can earn up to a 3.0% performance award in their first year, a 3.5% performance award in their second year, a 4.0% performance award in their third year, a 4.5% performance award in their fourth year, and a 5.0% performance award in their fifth and subsequent years based on an "exceptional" rating (directors are capped at 4.0%).
2. Performance awards are considered on an annual basis.

Budget Policies for 2017-2018

- Over the next two years, management will attempt to negotiate collective bargaining agreements that do not substantially add to the fiscal strain on the City's 2017-2018 and subsequent budgets. All bargaining groups (Police, Police Support, Fire and AFSCME) will negotiate new or successor agreements during the 2017-2018 biennium.
- Review each position vacancy for the potential of attrition or work redesign.
- Analyze personnel forecasting, benchmarking and reporting (e.g. indirect pay costs, employee demographics, tenure, turnover rate, salary spreads, total compensation reports for all employees, and health benefit cost trends).
- Maintain the City's commitment to high standards of employee performance evaluation by continuing to track and report employee performance.

2017-2018 Budget Impact

Collective bargaining ratified by the City Council will determine the budget impact.

Property Tax

Background

There are two types of property taxes collected by the City: *regular levy* and *voter approved levy*. The *regular levy* portion may be used for any purpose that the City deems necessary. On Mercer Island, as in most cities, the *regular levy* supports the General Fund, which funds most of the general operations of the City, excluding the water, sewer, and storm water utilities. 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 purchases or improvements. A *levy lid lift* is usually dedicated to funding specific general government operations and/or capital improvements.

In addition to the City, there are 8 other jurisdictions that have taxing authority on Mercer Island. In 2016, over half of the total levy amount is dedicated to education, with 29.7% going to the Mercer Island School District and 26.0% going to the State School Fund. King County and the City are the next largest taxing jurisdictions, receiving 17.7% and 13.9% respectively of the total property tax bill. The remainder of the total levy, which equals 12.7%, encompasses the following: King County Library System, King County Emergency Medical Services, Port of Seattle, Flood Zone District, and Ferry District. Summarized in the following two tables are the 9 taxing jurisdictions, their levy rates per \$1,000 of assessed value, and the percentage of the total property tax levy for the period 2007-2016.

Jurisdiction	Levy Rate Per \$1,000 Assessed Valuation									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
MI School District	1.72961	1.58343	1.81390	2.01025	2.52206	2.67700	2.66197	2.51965	2.72289	2.47976
State School Fund	2.32535	2.13233	1.96268	2.22253	2.27990	2.42266	2.56720	2.47044	2.28514	2.16898
King County	1.28956	1.20770	1.09772	1.28499	1.33816	1.41588	1.54051	1.51605	1.34522	1.48027
City of Mercer Island	1.25306	1.13689	1.00407	1.20135	1.24452	1.33138	1.43513	1.35658	1.25551	1.16502
King County Library	0.46183	0.41836	0.39530	0.46088	0.55131	0.56992	0.56743	0.56175	0.50276	0.47714
Emergency Medical Services (EMS)	0.20621	0.30000	0.27404	0.30000	0.30000	0.30000	0.30000	0.33500	0.30217	0.28235
Port of Seattle	0.23158	0.22359	0.19700	0.21597	0.22366	0.22982	0.23324	0.21533	0.18885	0.16954
Flood Zone District	0.00000	0.10000	0.09123	0.10514	0.10976	0.11616	0.13210	0.15369	0.13860	0.12980
Ferry District	0.00000	0.05500	0.05018	0.00348	0.00360	0.00372	0.00378	0.00349	0.00000	0.00000
Total	7.49720	7.15730	6.88612	7.80459	8.57297	9.06654	9.44136	9.13198	8.74114	8.35286

Budget Policies

Jurisdiction	% of Total Property Tax Levy									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
MI School District	23.1%	22.1%	26.3%	25.8%	29.4%	29.5%	28.2%	27.6%	31.2%	29.7%
State School Fund	31.0%	29.8%	28.5%	28.5%	26.6%	26.7%	27.2%	27.1%	26.1%	26.0%
King County	17.2%	16.9%	15.9%	16.5%	15.6%	15.6%	16.3%	16.6%	15.4%	17.7%
City of Mercer Island	16.7%	15.9%	14.6%	15.4%	14.5%	14.7%	15.2%	14.9%	14.4%	13.9%
King County Library	6.2%	5.8%	5.7%	5.9%	6.4%	6.3%	6.0%	6.2%	5.8%	5.7%
Emergency Medical Services (EMS)	2.8%	4.2%	4.0%	3.8%	3.5%	3.3%	3.2%	3.7%	3.5%	3.4%
Port of Seattle	3.1%	3.1%	2.9%	2.8%	2.6%	2.5%	2.5%	2.4%	2.2%	2.0%
Flood Zone District	0.0%	1.4%	1.3%	1.3%	1.3%	1.3%	1.4%	1.7%	1.6%	1.6%
Ferry District	0.0%	0.8%	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Regular Levy and Referendums

Each November, as required by Washington State law, the City Council sets the property tax levy for the coming year. Up until November 1997, the levy was restricted to a maximum of 106% of the previous year's levy plus the full levy authority for new construction. However, in 1997, the Washington State Legislature passed Referendum 47 on to the voters of the state who in turn approved it by a 60% majority. This referendum set a limit on property tax increases to be the *either 106% or the rate of inflation, whichever was less*. In 2001, Initiative 747 was approved by voters which further changed the property tax law. Initiative 747 limits the property tax levy to a maximum of 101% of the previous year's levy, or the rate of inflation, whichever is less. Since the rate of inflation is normally above 1%, the effective limit for property tax will normally be 1%. The initiative also allows higher property tax increases if approved by the voters, a provision that was already in state law. The initiative's sponsors intended for voters to have a say in the size of tax increases.

Inflation, for the purposes of the referendum, is defined as the increase in the Implicit Price Deflator (IPD) for the previous 12 months ending in July of each year by the Bureau of Economic Analysis. This is not the same thing as the Consumer Price Index for Urban Wage and Clerical Workers (CPI-W), which most cities, including Mercer Island, have used for many years as the basis for cost of living adjustments for employees. The City's labor contracts tie the coming year's annual cost of living increase to the current year's First Half CPI-W for the Seattle metro area. The two indexes, IPD and CPI-W, track different items.

During 2006, I-747 was declared unconstitutional by a King County Superior Court judge. Attorney General Rob McKenna appealed the ruling to the Washington State Supreme Court. Ultimately, the Supreme Court upheld the ruling of the lower court. Then, in 2007, the state legislature re-instated I-747, making it law.

Levy Policy

For many years, the Council policy was to raise the levy by the full amount allowed by law. However, beginning in the 1995-1996 Budget, the City Council chose to provide property tax relief to Mercer Island residents by "ramping down" the annual increase allowed by law, with the intent of targeting the rate of inflation based on the CPI-W for the Seattle metro area. The Council reached its "inflation" goal

in 1999. Since 2001, the Council has normally followed the State law and increased property taxes by 1% each year. However, in 2002, 2005, 2006, and 2007, the Council decreased property taxes by paying for some voted debt out of reserves. In 2010 and 2011, the Council opted to not increase the levy amount, excluding new construction.

The current Council policy concerning the property tax levy stresses flexibility. The Council is committed to fiscal responsibility as well as keeping this community affordable for its citizens. Thus, each year, the Council reviews the regular property tax levy in light of:

- Current economic conditions;
- The fiscal health of the City (focusing on the City's largest revenue sources and personnel costs); and
- The six year financial forecast for the General Fund.

Important Considerations

There are 4 important considerations regarding the City's property tax levy:

1. Property tax is the largest revenue source in the General Fund, accounting for 41% of total revenues in 2017-2018. By comparison, property taxes comprise only 19-23% of total General Fund revenues in Bellevue, Kirkland, Redmond, and Issaquah due to their large commercial sectors. As a result, the 1% annual growth limitation on the City's largest revenue source puts an unrealistic burden for growth on the City's other major revenues: sales tax (16% of total); utility tax (14% of total); and license, permit & zoning fees (12% of total); and recreation/rental fees (6% of total).
2. Employee salaries and benefits make up 71% of the 2017-2018 General Fund Budget and are projected to increase about 4.0% per year in 2017-2018.
3. The First Half 2016 CPI-W for the Seattle metro area is 2.33%, and the First Half 2017 CPI-W is projected to be 2.50%.
4. In 2017, the 1% optional increase, which is assumed in the budget, corresponds to \$126,533 in new revenue for the City. This equates to an annual property tax increase in 2017 of \$10.47 on a \$1.0 million home.

Banked Capacity

The banked capacity provision allowed under RCW 84.55.092, Protection of Future Levy Capacity, allows local taxing districts to calculate levies based on the maximum lawful levy since 1985. If a taxing district voluntarily levies less than its maximum levy amount in a prior year, it will have some 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 2008, the Council opted to use 0.65% of banked capacity (or \$57,900), in addition to the 1% optional increase, to help fund the fire apparatus replacement reserve on an ongoing basis. In 2012, the Council opted 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 opted to use all of its remaining banked capacity (1.2%, or \$144,960) to address various funding needs, including long-term care benefits for LEOFF I retirees.

Budget Policies

Levy Lid Lifts

The Council will determine an appropriate level of service for the Island as part of the biennial budget process. The choice remains to balance the budget by raising taxes and/or increasing fees, by cutting services, or both. If the cost of services cannot be supported by the forecasted revenues with a 1% property tax increase, the Council may consider authorizing a ballot measure for a voter approved levy lid lift.

On November 4, 2008, Mercer Island voters approved a \$900,000 Parks Maintenance and Operations levy lid lift for 15 years (2009-2023), but rejected the companion \$12.0 million Parks Bond measure. On November 6, 2012, Mercer Island voters approved a \$662,000 Fire Station and Fire Apparatus levy lid lift for 9 years (2013-2021) that will be used to pay the debt service (i.e. principal and interest) on the LTGO bonds that were issued in February 2013 to fund the replacement of Fire Station 92 and a Fire Rescue Truck.

King County Parks, Trails, and Open Space Levy

A portion of this six year levy (2014-2019), which voters passed in August 2013, is remitted to each city in King County for purposes of protecting and preserving open space and acquiring and developing regional trails. Mercer Island has dedicated this funding source to trail development in its Capital Improvement Program.

Budget Policies for 2017-2018

- The regular levy for 2017 and 2018 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 2017 and 2018 is distributed to the General Fund. The dedicated portions of the regular levy are for the LEOFF I long-term care reserve in the General Fund (\$83,000 in 2017 and 2018), the fire apparatus sinking fund in the Equipment Rental Fund (\$157,577 in 2017 and \$159,153 in 2018), and the pension benefits reserve in the Firefighter’s Pension Fund (\$26,410 in 2017 and 2018).
- The 2008 Parks Maintenance and Operations levy lid lift for 2017 and 2018 is \$936,260 and \$945,623 respectively. Both years include the 1% optional increase. Of the total annual levy amount, \$252,000 is budgeted for parks capital projects in the Capital Improvement Fund. The remaining balance is budgeted for parks maintenance and operations in the General Fund (\$684,260 in 2017 and \$693,623 in 2018).
- The 2012 Fire Station 92 and Fire Rescue Truck levy lid lift for 2017 and 2018 is \$668,620 and \$675,306 respectively. Both years include the 1% optional increase. Of the total annual levy amount, \$618,100 is budgeted in 2017 and \$616,900 is budgeted in 2018 for bond principal and interest payments in the Bond Redemption (Non-Voted) Fund. The remaining balance is distributed to the fire apparatus sinking fund in the Equipment Rental Fund (\$50,520 in 2017 and \$51,786 in 2018).
- The City anticipates receiving \$96,559 in 2017 and \$98,491 in 2018 from the 2013 King County Parks, Trails, and Open Space levy.

2017-2018 Budget Impact

Revenues	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
General Fund:				
Regular Levy (General Purpose)	\$10,512,239	\$10,758,560	\$11,096,783	\$11,373,229
Regular Levy (LEOFF I Long-Term Care)	83,000	83,000	83,000	83,000
2008 Parks M&O Levy Lid Lift	662,808	674,990	684,260	693,623
Bond Redemption Fund – 2012 Fire Station & Fire Rescue Truck Levy Lid Lift	614,700	614,000	618,100	616,900
Capital Improvement Fund – 2008 Parks M&O Levy Lid Lift	252,000	252,000	252,000	252,000
Equipment Rental Fund:				
Regular Levy (Fire Apparatus Sinking Fund)	154,472	156,017	157,577	159,153
2012 Fire Station & Fire Rescue Truck Levy Lid Lift (Fire Apparatus Sinking Fund)	47,300	48,000	50,520	51,786
Firefighter’s Pension Fund – Regular Levy	26,410	26,410	26,410	26,410
Total Levied by City	\$12,352,929	\$12,612,977	\$12,968,650	\$13,256,101
Capital Improvement Fund – King Co. Levy	\$98,644	\$95,886	\$96,559	\$98,491
Total Property Taxes	\$12,451,573	\$12,708,863	\$13,065,209	\$13,354,592

Budget Policies

Reserves – Capital Reserve Fund

Background

As part of the overall capital budget, the City’s Capital Facilities Plan (CFP) is a six-year plan to outline proposed new capital projects. The CFP is divided into four component parts:

- Streets, including pedestrian and bicycle facilities;
- Parks, recreation, and open space;
- General government, including public buildings; and
- Utilities, including water, sewer and storm water.

As required by State law and the City’s own policies, the CFP serves the capital planning requirements for six-year plans as outlined in the Comprehensive Plan and State Growth Management Act.

According to the City’s Capital Improvement Program budget policy, funding for the CFP portion of the capital budget will generally be decided simultaneously with the approval of the project. Unlike the Capital Reinvestment Plan (CRP), which is financed on a “pay-as-you-go” basis from existing revenue sources, CFP projects are typically financed through a voted property tax levy (which allows the City to issue bonds), a grant, or an increase to an existing revenue source (e.g. increasing City utility rates).

In past years, better than forecasted sales tax and real estate excise tax (REET) revenues have allowed the Council to accumulate funds in the Capital Reserve Fund for: 1) future CFP projects, and 2) a REET reserve (to stabilize REET receipts). In addition, the Council can establish a CIP contingency reserve for unanticipated, significant capital project cost increases in the Street Fund or the Capital Improvement Fund that can’t be fully addressed by the contingency built into a project’s budget or the savings in another project.

Budget Policies for 2017-2018

- Use the \$169,999 current balance in the Capital Reserve Fund as a REET contingency in 2017-2018.
- The Council will have an opportunity to increase the balance in the Capital Reserve Fund as part of the annual process for determining the disposition of the year-end surplus, if any, in the General Fund, the Street Fund, and the Capital Improvement Fund.

2017-2018 Budget Impact

Description	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
Beginning Fund Balance	\$ 351,552	\$ 351,552	\$ 169,999	\$ 169,999
Plus Revenues	-	-	-	-
Less Expenditures	-	(181,553)	-	-
Ending Fund Balance	\$ 351,552	\$ 169,999	\$ 169,999	\$ 169,999

Budget Policies

Reserves – Contingency Fund

Background

The Contingency Fund, which serves as the City’s “Rainy Day” reserve, was established to:

- Address an unanticipated, significant revenue shortfall in the General Fund or another general government operating fund on a temporary basis;
- Provide temporary funding for an unanticipated, non-recurring, significant expenditure that cannot be absorbed within the General Fund or another general government operating fund; and
- Provide temporary funding for an unanticipated, ongoing, significant increase in general governmental operating costs that cannot be absorbed within the General Fund or another general government operating fund.

According to Washington State law, the fund balance in the Contingency Fund is limited to 37.5 cents per \$1,000 assessed valuation. For 2016, the legal limit is \$4,075,840. The 2016 target balance equals 10% of budgeted expenditures in the General Fund, which corresponds to \$2,772,309 based on the originally adopted 2016 budget of \$27,723,094. As of 6/30/16, the Contingency Fund has a balance of \$2,580,359, which is \$191,950, or 6.9%, below the 2016 target balance. This shortfall will decrease with the distribution on investment earnings to the Contingency Fund in the second half of 2016.

In addition, there is a revenue stabilization reserve of \$300,000 in the General Fund, which is intended to address an unanticipated, significant revenue shortfall in the General Fund (most likely related to sales tax) on a short-term (i.e. less than 1 year), temporary basis. The revenue stabilization reserve is an extension of the Contingency Fund, representing a “first line of defense” against a revenue shortfall.

In the past, the Contingency Fund has received revenues from two sources:

1. Interest earnings based on the cash balance in the fund; and
2. General Fund surplus from the prior year, which can be used to increase the Contingency Fund balance to the target level.

Recognizing that a number of different financial scenarios requiring the use of the Contingency Fund are possible, the following guidance is provided regarding when to tap the Contingency Fund and when to replenish it.

Use Guidance: Revenue Shortfall

- I. When total revenues in the General Fund or another general government operating fund are projected to be at least 3% below budget, the Finance Director and City Manager will prepare a 12-24 month “Rainy Day” strategy utilizing the following prioritized funding sources:
 - a) Prior year’s revenue surplus and expenditure savings in the General Fund, which haven’t been committed to a specific purpose or distributed yet;
 - b) Revenue stabilization reserve in the General Fund (\$300,000);
 - c) Expenditure savings in the current and coming fiscal years, including temporary employee layoffs but excluding regular employee layoffs (General Fund target: 3.0% of budgeted expenditures for a 12-24 month period); and

Budget Policies

- d) Contingency Fund and/or temporary/regular employee layoffs, recognizing that the latter will be recommended when the balance in the Contingency Fund is projected to last less than 24 months.
2. The Finance Director and City Manager will present their 12-24 month “Rainy Day” strategy to the Council and will seek an appropriation of all or a portion of the prior year’s revenue surplus and expenditure savings in the General Fund, which haven’t been committed to a specific purpose or distributed yet.
3. When it becomes evident that funding source “a” is inadequate to address the projected revenue shortfall, the Finance Director and City Manager will seek Council approval to use the \$300,000 revenue stabilization reserve in the General Fund.
4. When it becomes evident that funding sources “a,” “b,” and “c” are inadequate to address the projected revenue shortfall, the Finance Director and City Manager will amend their 12-24 month “Rainy Day” strategy, as deemed appropriate, and present options and make a recommendation to the Council regarding how much of the Contingency Fund to appropriate and the timing and number of temporary/regular employee layoffs.

Use Guidance: Unanticipated Expenditure or Operating Cost Increase

To address an unanticipated, non-recurring expenditure or an unanticipated, ongoing increase in general governmental operating costs that cannot be absorbed within the General Fund or another general government operating fund, the Finance Director and City Manager will seek an appropriation from one or both of the following prioritized funding sources:

1. Prior year’s revenue surplus and expenditure savings in the General Fund, which haven’t been committed to a specific purpose or distributed yet; and
2. Contingency Fund.

Replenishment Guidance

The funding source for replenishing the revenue stabilization reserve (in the General Fund) and the Contingency Fund is the prior year’s revenue surplus and/or expenditure savings. Restoring the revenue stabilization reserve and the Contingency Fund to their target levels will constitute the Council’s highest funding priority following the final draw needed to address a revenue shortfall or an unanticipated expenditure, absent a super majority vote (i.e. 5 vs. 2) to the contrary:

- For a revenue shortfall, the replenishment target period is 3 years.
- For an unanticipated, non-recurring expenditure or an unanticipated, ongoing increase in general governmental operating costs, the replenishment target period is 2 years.

Budget Policies for 2017-2018

- Investment earnings will be distributed quarterly to the Contingency Fund in two ways: 1) based on cash balance in the fund; and 2) based on the cash balances of all the funds and reserves, which don't receive an allocation of investment earnings, up to the current target balance.
- Maintain one year lag approach of funding the Contingency Fund at its target level until investment earnings exceed 2%. This lag approach is expected to continue through 2018. In 2017, the Finance Director strongly recommends distributing a portion of the 2016 General Fund surplus to the Contingency Fund to increase its balance up to the 2016 target level of \$2,772,309.

2017-2018 Budget Impact

Description	2015	2016	2017	2018	Percent Change	
	Actual	Forecast	Budget	Budget	16-17	17-18
RESOURCES						
Budgeted						
Beginning Fund Balance	\$ -	\$ -	\$ -	\$ -	N/A	N/A
Interest	23,674	25,000	25,000	25,000	0.0%	0.0%
Total Budgeted Resources	\$ 23,674	\$ 25,000	\$ 25,000	\$ 25,000	0.0%	0.0%
Not Budgeted						
Beginning Fund Balance (Reserved)	2,489,343	2,513,017	2,538,017	2,563,017	1.0%	1.0%
TOTAL RESOURCES	\$2,513,017	\$2,538,017	\$2,563,017	\$2,588,017	1.0%	1.0%
USES						
Budgeted						
Interfund Transfers - General Fund	\$ -	\$ -	\$ -	\$ -	N/A	N/A
Total Budgeted Expenditures	\$ -	\$ -	\$ -	\$ -	N/A	N/A
Not Budgeted						
Ending Fund Balance	2,513,017	2,538,017	2,563,017	2,588,017	1.0%	1.0%
TOTAL USES	\$2,513,017	\$2,538,017	\$2,563,017	\$2,588,017	1.0%	1.0%

Budget Policies

Risk Management

Background

Mercer Island is one of the charter members of the municipal self-insured liability pool—Washington Cities Insurance Authority (WCIA). Through WCIA and an interlocal agreement with more than 170 other municipal corporations, the City of Mercer Island insures for general liability, automobile liability, errors and omissions, police enforcement, employee administration, and advertising liability.

Participation in WCIA's program has resulted in the City continuing to be covered on a per occurrence basis with tail coverage back through 1981. The pool presently is self-insured and uses an annual actuarial study to determine member "premiums" and reserve policies.

WCIA's long-term goals are to provide prudent planning and effective management to allow member cities liability protection comparable to or better than that available in the private market. Loss control procedures are reviewed with the cities to assist members to more effectively prevent, control, or subrogate liability risks.

Other Insurance

The City purchases property insurance through a pooled arrangement with the other member cities of WCIA. Industrial insurance is provided by the state with premiums paid based on the number of hours worked. The City's workforce is divided into four classes with different rates for each class. Volunteers are also covered by industrial insurance.

Budget Policies for 2017-2018

- Continue to participate in the Washington Cities Insurance Authority during the 2017-2018 biennium.
- Continue to review opportunities for efficiencies and reductions in risk-based insurance costs.

2017-2018 Budget Impact

	2015	2016	2017	2018
	Actual	Forecast	Budget	Budget
Liability Insurance (WCIA)	\$ 515,494	\$ 590,966	\$ 656,936	\$ 689,783
Property Insurance (WCIA)	99,027	105,105	111,412	116,983
Fleet & Marine Insurance (WCIA)	47,505	48,877	52,700	52,700
Specialty Insurance (WCIA)	5,456	8,686	9,000	9,270
Total Revenue	\$ 667,482	\$ 753,634	\$ 830,048	\$ 868,736

Budget Policies

Sustainability

Background

The 2017-2018 Budget reflects the Mercer Island City Council's ongoing commitment to building a sustainable community. This commitment is evident in the budget of each individual department, the capital improvement program, and in the funding priorities of the City's three utilities.

Sustainability is a Mercer Island value. It is a process of ensuring the wise use and management of all resources within a framework in which environmental, social, cultural and economic well-being are integrated and balanced. It means meeting the needs of today without adversely impacting the needs of future generations.

The first cornerstone of the City's sustainability policy foundation was created in 2006 with the adoption of a Comprehensive Plan amendment that expanded the City's Vision Statement to include the following statement:

“Mercer Island strives to be a sustainable community: Meeting the needs of the present while preserving the ability of future generations to meet their own needs. We consider the relationship between the decisions we make as a community and their long-term impacts before committing to them. We understand that our strength is dependent on an open decision-making process that takes into account the economic, environmental and social well-being of our community.”

Accountability

The City of Mercer Island will work to:

- Optimize the efficient use of resources and minimize waste;
- Increase the use of renewable resources and reduce greenhouse gas emissions;
- Operate in ways that minimize any adverse impacts on the environment or the local community;
- Require employees to incorporate informed sustainability perspectives within their work;
- Encourage contractors, vendors and other community partners working within our community to adopt sustainable best practices; and
- Deliver an improved quality of life for the current and future residents of Mercer Island.

Service Delivery

City departments will:

- Implement sustainable procurement procedures taking account of entire life-cycle costs;
- Repair, reuse and recycle ahead of the responsible disposal of surplus materials, and minimize waste generation while taking into account the economics of the work;
- Take positive actions promoting continual improvement in sustainability performance;
- Set and achieve clearly defined sustainable development objectives and targets;
- Recognize, celebrate and reward achievement in order to promote the city as a sustainable organization; and
- Develop the capacity of staff to promote the principles and practice of sustainability.

In 2006, the City Council adopted a budget policy that directed the City's staff to “undertake efforts to curtail its consumption of scarce resources including electric energy, water, fossil fuels and landfill space” and set new targets for the conservation of natural resources. The Council has been clear that the

Budget Policies

most cost-effective efforts should come first and that the effectiveness of sustainability efforts should be evaluated by their measurable impact on the carbon footprint of the Island.

Sustainability Work Plan and Climate Action Plan

The City's new rolling 6-year Sustainability Work Plan currently under development will identify multiple large-scale venues in which conservation priorities will be addressed. A Climate Action Plan component will include actions needed to meet the City's overarching goal of reducing greenhouse gas emissions by *80% from 2007 levels by 2050*.

By way of background, in early 2007, Governor Christine Gregoire signed Executive Order 07-02 and established a similar statewide goal; King County's 2007 Comprehensive Plan also contained comparable language. In late 2007, the Mercer Island City Council set an interim emissions reduction goal (or "milepost") for City operations of 5% by 2012; additional interim targets are being identified. In the 2009-2010 biennium, Council directed staff to pursue any federal, state, local or private grant opportunities to help promote sustainable activities that will ensure long term economic, environmental and social sustainability.

Sustainability Task Force History

In March 2012, Mayor Bruce Bassett announced the appointment of eleven community members and two Councilmembers to the Sustainability Policy Task Force. Set with the mission of developing sustainability policy that would help direct the City's early actions and priorities, the Task Force identified policy topics and action items that would have the greatest near-term opportunity to reduce the Island's environmental impact, save money both for City operations and for residents, and improve Islanders' quality of life.

The Sustainability Policy Task Force strongly believes that the City Council can make strides to lead and incentivize the City and community to make great efforts towards a sustainable future. The Task Force recognizes that creating and maintaining open lines of communication requires dedication by the City and its staff.

To implement these policies, the Sustainability Policy Task Force's recommendations to Council were:

1. Create a dedicated staff position that will work on resource conservation and carbon footprint issues within the City and perform educational outreach to the community.
2. Approve the policy statements set forth in the Task Force's Recommendations report and incorporate this policy framework into all Mercer Island planning and policy documents, such as the MI Comprehensive Plan, the utilities plans, and the annual budget.
3. Direct staff to develop a six-year Sustainability Work Plan.
4. Take legislative actions by the Council to foster a culture of sustainability in the community, such as pass a plastic bag ban.

Over the past four years, activities have been launched or completed in all four recommendation areas and the City has hired its first dedicated Sustainability Manager (in April 2013). The Task Force's policy recommendations focused on five sectors where early improvements were deemed feasible, and which included: waste reduction efforts; energy and water conservation; yard toxin awareness and reduction; green building protocols and code changes; sustainability outreach programs and general public environmental communication. Since 2012, the City has broadened the scope of its sustainability work beyond these five sectors, and has incorporated the arenas of transportation and land use. The Mayor and Council have also addressed or supported specific climate legislation or advocacy campaigns at the county and state level.

Focus Area: Fleet and Transportation

Serious commitment to address global warming in the Puget Sound region must powerfully address emissions from the transportation sector, which represents approximately 50 percent of all regional greenhouse gas emissions. Public fleets in particular have a responsibility to take the lead, especially those operating in cities and counties that have formally pledged or adopted resolutions to achieve significant greenhouse gas reductions. With this goal in mind, the City of Mercer Island, in partnership with numerous other local governments in our region, the Puget Sound Clean Air Agency, and the Puget Sound Clean Cities Coalition launched the Evergreen Fleets Initiative, an effort to engage public fleets in voluntary actions to reduce vehicle emissions. In 2009, the City was one of the first to achieve certification through Evergreen Fleets; the ultimate goal is to reduce air pollution in the region by meeting or exceeding set performance standards.

The City continues to seek opportunities to purchase more efficient, cleaner-burning vehicles, such as the Toyota Prius hybrid that was added to the fleet in 2013, propane-fueled mowers and work trucks added to Parks and Recreation in 2014-2015. As part of a movement towards non-polluting 100% electric vehicles, the City has: expanded its electric vehicle support infrastructure with more chargers and designated parking stalls; encouraged employees to consider EV's via a test-drive program; and has added two 100% electric vehicles - a Kia Soul used by City building inspectors (2015), and a Nissan Leaf used by City engineers (2016).

With the planning of Sound Transit's East Link light rail line well underway, the City has also been deeply involved in the anticipated look, feel, and operational logistics of the Mercer Island Station and associated roadway alterations. When East Link opens in 2023, it will occupy the center roadway of I-90 and will therefore affect the daily lives of many residents who currently use that route to access downtown Seattle in single occupancy vehicles (SOV's). The City believes that many residents currently using SOV's for daily commuting will transition to the convenience and predictability of light rail service to Bellevue and Seattle. Discussions are underway to ensure that Islanders have local "last-mile" transit access to the light rail station, and that sufficient parking is available for potential rail users.

Focus Area: Healthy Neighborhoods

The City of Mercer Island works to promote development that reduces environmental impacts by following green building principles, using natural resources efficiently, and preserving the natural beauty of Mercer Island. We will also take into account opportunities that will provide affordable development within easy access of public transportation and regional amenities that decrease the need for automobiles and encourage bicycling and walking. The City recently completed a thorough update to the 20-year vision and development standards for the Town Center area – the updated code included a directive that new construction meet LEED Gold or Built Green 4-Star standard, as well as other pedestrian-friendly measures.

Focus Area: Water Quality

The protection of Lake Washington has long been one of the City's top priorities. The creation of the City's Storm Water Utility in the mid-1990s provided stable funding to effectively manage the Island's impact on the Lake, and the City has a number of best management practices and outreach programs in place in order to minimize water-borne lake pollution.

Focus Area: Conserving Resources

The wise use of resources, from electricity and natural gas to drinking water and urban forests, is a fundamental requirement for creating sustainable communities. The City has a long history of effectively

Budget Policies

promoting resource conservation, waste reduction and recycling, purchasing products made with recycled content, and using alternatives to pesticides and other harmful chemicals. These efforts will intensify and extend throughout City operations in the coming years as directed by the City's upcoming 6-year rolling Sustainability Work Plan. Partnerships continue to be established with like-minded agencies at the local and county level for added motivation and mutual support.

Focus Area: Reducing Carbon Emissions

The City has implemented a wide range of outreach programs, efficiency campaigns, alternative energy initiatives, land-use guidelines, and other natural resource management measures designed to minimize the overall impacts and carbon emissions produced by Island residents, for the benefit of future generations. It has also implemented these measures as part of its own operations and facilities management. Due to the long-term nature of actions needed to reduce greenhouse gas emissions, these measures must be included in all future planning.

In 2012, staff from nine Puget Sound area cities (Issaquah, Kirkland, Mercer Island, Redmond, Renton, Seattle, Shoreline, Snoqualmie, and Tukwila) founded the King County-Cities Climate Collaboration ("K4C"), which seeks to take a collaborative approach to global warming mitigation. Member cities, and other interested municipalities, have adopted joint standards, goals, and benchmarks that collectively will accelerate climate mitigation projects County-wide, and have a far greater positive impact than any one city could expect to achieve working along. The City of Mercer Island continues to provide significant support to this partnership, and frequently serves as an early adopter of joint policies, support letters, or lobbying efforts. In conjunction with the City of Bellevue, Mercer Island's carbon footprint and consumption data is being entered into a powerful new software package that allows for greater public education, progress reports, and alternatives analysis.

Focus Area: Green Power & Renewable Energy

Moving toward clean and reliable renewable energy is a critical part of the formula for slowing global warming. Even at the local government level, it is possible to make significant and meaningful contributions. For example, the City has one of the highest levels of community participation in voluntary "green power" purchase programs nationwide, and will continue to advocate for that option available through Puget Sound Energy (PSE). The City also purchases carbon offsets covering one-third of its own usage, and is currently exploring PSE options to increase this amount.

Solar power has become increasingly feasible and cost-effective in Washington due to improvements in efficiency and generous state production incentives. In 2014 the City ran a "Solarize" campaign, under which many hundreds of interested residents and small business owners were offered the opportunity to install rooftop solar at a pre-negotiated price from a competitively-selected installer: this led to 47 new installations and 320 kilowatts of clean energy generating capacity. The City continues to promote adding further arrays to the Island, and has researched a City Hall community solar project, in which funding would come from investor residents. In 2016, the School District added two very large 100 kilowatt arrays on new school buildings, boosting local clean energy production even further.

Selected Department Sustainability Examples

City departments are involved in dozens of sustainability activities and programs. Included here is a small, representative sampling.

Budget Policies

The Development Services Group has continued its development of online permit application and inspection reports, leading to 95 percent participation by 2015. To achieve even greater efficiency, the City required all submittals for Building Permits to go paperless by July 2016.

The Parks and Recreation Department has adopted simple measures, such as motion sensors at all restroom buildings, to more in-depth efficiency projects including a planned retrofit of the Island Crest Ballfield lighting, or the removal of a concrete bulkhead at Groveland Docks and installation of fish-friendly dock materials. The Department has been a City leader in alternative-fuel vehicle purchases, and recently converted its seasonal Recreation Course Guide to an all-electronic format, avoiding three mailings per year to all 9,000 Island households. The Community and Event Center has implemented many significant efficiency measures, such as retrofitting all parking lot lighting to LED models.

The Public Works Department is converting neighborhood ditches to bioswales, exploring a pilot project using asphalt made from recycled roofing shingles, and has recently completed the conversion of all Town Center streetlights to energy-saving LED models, a project with a two-year payback. In addition, the Right-of-Way Team has been investigating the sources of dissolved copper and zinc in the systems that drain the Island's two commercial areas, and intends for water quality treatment devices to be installed at key locations to capture pollutants before they reach Lake Washington. A new structure now receives and dewateres all material collected by the City's street sweeper, ensuring that water is properly treated before entering the Lake.

The Information and Geographic Services Department continues a policy that requires all printers, monitors and computers not in use at the end of the day to be turned off. All electronics that are replaced go to a local recycler for disposal, and the City hosts sporadic collection events for these items.

The Youth and Family Services Department recently installed a much-more efficient HVAC system that uses cutting-edge ductless heat pump technology. The department continues to operate a gleaning program that takes unsold or unused fresh produce from the Farmers Market and makes it available at the City's Food Pantry. The Thrift Shop recycles a virtual mountain of the Island's used clothing and household goods, and steers residents to other wholesalers for items that cannot be resold.

The Finance Department is growing its E-billing program and also accepts electronic payments.

Budget Policies for 2017-2018

Grants

- Continue to develop partnerships that will be a catalyst to the success of future grant applications.
- Continue to seek out grant opportunities that will develop sustainable projects and programs that will add value to our community and meet the City's sustainability goals.

Fleet

- Collect and report baseline and annual fuel use data and fleet utilization data (miles or hours).
- Continue acquiring hybrid and electric vehicles when they pass the test for cost effectiveness.
- Periodically evaluate opportunities for conversion to alternative fuels, including compressed natural gas (CNG) and propane.
- Evaluate and acquire new efficiency technology (such as idle shutdown timers).

Budget Policies

Healthy Neighborhoods

- Develop a green building tool kit in the Development Services Department that addresses policies, process and procedures that encourage customers to seek green building techniques and provides guidance.
- Include green building principles, suggested practices, or incentives in updates to MI City code.
- Continue to work with regional transportation authorities—Washington Department of Transportation, King County Metro and Sound Transit—to develop well integrated, multimodal transportation options for our community, especially in regards to the future light rail station.
- Enforce updated land use codes that reduce sprawl by encouraging new housing in the Town Center and by creating a compact, walkable neighborhood in the Town Center.
- Promote non-motorized transportation options through the implementation of the City’s updated Bicycle and Pedestrian Facilities Plan.
- Collaborate with A Regional Coalition for Housing (ARCH) to develop affordable housing within Mercer Island’s Town Center.
- Collaborate with Island residents and organizations to raise the community’s awareness about the importance of employing sustainable practices, including reducing greenhouse gas emissions and the relationship to global warming.
- Continue to support entities such as the Mercer Island Farmers Market that improve the quality of life on the Island and demonstrate healthy or sustainable practices.

Water Quality

- Continue to meet the requirements of the new federal storm water regulations contained in the National Pollutant Discharge Elimination System (NPDES), and enhance storm water outreach education measures.
- Continue to focus the storm water utilities capital program on projects that reduce the amount of sediment being deposited in Lake Washington while protecting private and public property from damaging erosion.
- Add a new focus in the capital program on dissolved copper and zinc. Following inventory and sampling work, identify key locations for installing water quality treatment devices to capture these pollutants before they reach Lake Washington.
- Continue to raise awareness for the Luther Burbank Park homeowner demonstration area and similar efforts to naturally stabilize eroding shoreline while maintaining shore access.
- Identify opportunities to create Low Impact Development demonstration projects whose cost is covered or reduced by grant funding.

Conserving Resources

- Work with Island residents and City staff to meet the waste reduction and recycling goals established in the new Comprehensive Solid Waste Management Plan for King County.
- Work with Republic Services to achieve the sustainability objectives identified in the City’s long-term contract and seek to improve level of participation in multi-family recycling and food-waste programs; expand pilot food waste project beyond City Hall to other facilities.
- Establish and maintain partnerships with the Mercer Island School District and energy-supplier Puget Sound Energy to set and reach aggressive resource conservation goals.
- Continue efforts to promote water conservation by residents and at City facilities.
- Identify and implement capital improvements to City facilities that offer positive resource conservation return on investment.
- Maintain a healthy urban forest through effective vegetation management programs.
- Encourage City staff to develop innovative approaches to making sustainability a part of each day.

- Continue placing natural gas and electricity savings from energy efficiency projects into a Green Revolving Fund that will help pay for other efficiency projects.

Reducing Carbon Emissions

- Develop a Climate Action Plan as a component of the City’s upcoming 6-year Sustainability Work Plan, and align with goals of the King County-Cities Collaboration (K4C) process.
- Regularly tabulate carbon footprint of City operations and assure continuous reduction to meet 80% reduction goal by 2050; institute interim “milepost” goals to track progress using new software.
- Maintain record of City initiatives and new practices that effectively reduce energy consumption and carbon emissions, and share City experience with the community through public information and education efforts.
- Advocate for a reduction in the amount of coal-fired electricity contained within the energy mix portfolio of Puget Sound Energy (PSE), the utility serving the Island.

Green Power & Renewable Energy

- Grow the City’s purchase of green power from its current 33% level to a 100% offset.
- Exceed previous target of 750 (or 7.5%) of MI residential and commercial Green Power customers.
- Continue implementation of solar and other alternative energy sources in City operations and in the community.

2017-2018 Budget Impact

	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
Budget (Operating):				
Sustainability Coordinator	\$ 47,643	\$ 47,374	\$ 52,884	\$ 54,628
Recycling Services	27,747	35,500	36,500	36,500
Water Conservation	-	3,500	3,500	3,500
Storm Water Operations & Maintenance	1,039,641	1,110,768	1,201,974	1,237,682
Urban Forest Management (Right of Way)	114,656	115,926	136,808	137,834
Capital Improvement Program:				
Sustainability Projects	16,598	33,402	25,000	-
Vegetation Management	406,747	527,253	444,000	466,000
Storm Water Capital Projects	986,812	2,039,662	1,157,913	492,167
Total	\$2,639,845	\$3,913,385	\$ 3,058,578	\$ 2,428,310

Budget Policies

BUDGET POLICES

Utility Funds

This section includes budget polices on the following:

- Utility Overhead Charges
- Utility Maintenance and Construction
- Utility Fiscal Policies



Budget Policies

Utility Overhead Charges

Background

The City-owned utilities are classified as Enterprise Funds. Various departments, which are accounted for in the General Fund, provide administrative support to each of the City’s three utilities (water, sewer, and storm water). Administrative overhead charges include support provided to capital improvement activities, as well as support provided to the operations and maintenance of each utility. In addition, building maintenance costs related to City Hall and the Maintenance Center are paid by the General Fund. In order for the utility budgets to reflect the full costs of administration and building maintenance, an interfund charge is assessed to each of the City’s three Utility Funds. In effect, the General Fund charges each Utility Fund for costs that support the provision of utility services.

Administrative Charges

There are five cost centers in the General Fund that benefit each of the City’s three utilities: City Attorney’s Office, City Council, City Manager’s Office, Finance Department, and Human Resources Department. The basis for the interfund administrative charge associated with each cost center is noted below:

General Fund Cost Center	Interfund Charges	2017	2018
City Attorney's Office	13.2% of budget	\$ 54,280	\$ 55,997
City Council	13.2% of budget	2,741	2,741
City Manager's Office	13.2% of budget	27,693	29,223
CM Communications	5.4% of budget	5,711	5,900
Finance Department	Varies by position	224,417	231,498
Human Resources Department	12.4% of budget	65,873	66,391
Total		\$ 380,715	\$ 391,750

The portion of the City Attorney’s Office, City Council, and City Manager’s Office budgets which can be attributed to the Utilities is based on the proportion of agenda bills and contracts which are related to each Utility for 2014-2015 (the 2 full years preceding the development of the 2017-2018 Budget).

The portion of the Communications budget which can be attributed to the Utilities is based on the number of MI Weekly articles and press releases related to the Water, Sewer, or Storm Water utilities during the period September 2014 to August 2016.

The portion of the Finance Department budget which can be attributed to the Utilities varies according to position. Three positions (Utility Billing Supervisor, Customer Service Representative, and Meter Reader) are directly allocated to the Utilities and the General Fund. Two additional positions (Accounting Manager and Accounts Payable Clerk) are allocated based on the percent of GL Transactions related to the Utility Funds (26.9%) in 2015. The remaining two positions are allocated to the Utility Funds based on the percentage of time spent by each position on utility-related tasks as follows: Finance Director (13.2%) and Deputy Finance Director (55.5%)

The portion of the Human Resources Department budget which can be attributed to the Utilities is based on the number of Utility employees relative to the total number of City employees. This count is assessed as part of the Preliminary Budget process, based on approved FTE’s for the biennium.

Budget Policies

These administrative costs are allocated to each Utility according to the basis for each functional area. For example, the Human Resources Budget was allocated to each of the Utilities based on the percent of employees for each Utility. The Human Resources budget is allocated as follows: Water (5.6%), Sewer (6.0%), and Storm Water (2.8%). Similarly, each functional area is allocated in accordance with its base charge methodology. In aggregate, the cost allocation is split as follows: Water (41%), Sewer (30%), and Storm Water (29%).

Building Maintenance Charges

Maintenance costs for City Buildings are consolidated in one cost center within the General Fund. Building maintenance charges includes 1.15 FTE who oversee routine maintenance and repair projects, utilities (power, gas, water and sewer) used by the buildings, as well as contracted repair and maintenance services. Actual costs of utilities are available for each building. Other costs are allocated to the Maintenance Center and City Hall based on the square footage of the buildings. These costs will be charged back to the Utilities based on FTE's within each building in 2017, as follows:

Facility	Building Cost	Water	Sewer	Storm Water	General Fund
Maintenance Center	\$ 98,796	21.7%	24.1%	12.8%	41.4%
City Hall	\$ 252,956	2.4%	2.1%	0.8%	94.6%

Budget Policies for 2017-2018

- Ensure that the General Fund does not subsidize any of the City's Utilities.
- Assess interfund charges for administration and building maintenance to each Utility in 2017 and 2018 per the allocation factors and the Preliminary Budget amounts noted above.

2017-2018 Budget Impact

Charges	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
Water Utility Admin Charges	\$163,898	\$172,282	\$182,274	\$187,158
Sewer Utility Admin Charges	\$125,513	\$136,843	\$126,829	\$130,459
Storm Water Utility Admin Charges	\$130,290	\$131,068	\$143,069	\$146,489
Total	\$419,701	\$440,193	\$452,172	\$464,106

Utility Maintenance and Construction

Background

As part of each biennial budget cycle, City staff identifies and prioritizes water, sewer and storm water construction projects. The proposed projects are reviewed annually by the Utility Board and during the Capital Improvement Program (CIP) planning process. The projects are included in six-year plans for each of the utilities, which are much like the Transportation Improvement Plan (TIP). These six-year plans provide a roadmap for development of the biennial budget, assist with strategic rate planning, and allow for effective coordination among the utilities and street projects.

Sewer Utility

Reinvestment in the Sewer Utility is guided by the General Sewer System Plan adopted by Council in 2003. This plan provided detailed guidance on Capital Reinvestment through 2008. A revised plan is scheduled to be adopted by the Council in 2017. Staff has updated the 6 year plan for Sewer to include more detail on Capital Reinvestment needs for 2017-2022.

With the completion of the Sewer Lake Line Replacement Project, the focus for capital improvements turned to repairs and replacements identified during the ongoing comprehensive video inspection of the collection system that began in 2007. The installation of new access points for cleaning the Lake Line remains a priority. Engineering and design will continue in this biennium.

The prevention of back-ups in the sewer collection system continues to be another top priority and will be given both the financial and staff resources necessary for success. The ongoing cleaning and video inspection of the system is critical to detecting and eliminating problems such as roots and grease that can cause back-ups. Additional staff was added to the Sewer Team in 2016 to ramp up preventative maintenance activities.

Another area of concern for the Sewer Utility involves parts of the system that exist in the yards of Island residences. These “backyard sewers” will be investigated more closely in this biennium and will be prioritized for replacement in coming biennia. While usually small in scale, these replacements are challenging due to easement and access needs.

Water Utility

Reinvestment in the Water Utility is guided by the Water System Plan, which was adopted by Council in 2008 and updated in 2016.

The replacement of substandard water mains, particularly those that are undersized or are reaching the end of their useful lives and do not comply with the City’s fire flow policy, will continue to be an element of the water system capital improvements this biennium. At the current rate of funding, it is expected that it will take more than 20 years to replace the substandard mains in the system. The completion of the third and final phase of improvements to the water system on First Hill in 2012 was a milestone in the replacement effort. The ability to distribute water from the Emergency Well into Island neighborhoods continues to expand with additional Utility crew and volunteer training. Other new aspects of well operations, such as periodic sampling and testing of the water produced by the well, have been programmed.

Budget Policies

In September 2014, the presence of E. coli and Total Coliform bacteria was detected in various locations of the City's water distribution system, and this detection prompted a precautionary boil water notice. In the aftermath of the E. coli detection, a Long-Term Action Plan addressing areas of contamination risk was developed. The Long-Term Action include the use of water quality data as an element of capital reinvestment prioritization. The implementation of the Long-Term Action Plan remains a priority. The completed design of a Booster Chlorination Station, development of a uni-directional flushing program, and cleaning of large sized water mains have been programmed for this biennium.

Storm Water Utility

Reinvestment in the Storm Water Utility is guided by the Comprehensive Basin Plan adopted by Council in 2006. In addition, periodic Basin Reviews are conducted to review the deterioration in the City's Storm Water basins. Timing of construction is adjusted as conditions change.

With the completion of the last identified major basin project in 2012, planning for future basin improvements has turned to multiple smaller projects and the early stages of replacing the City's piped drainage systems in the public right-of-way.

In this biennium, the City's monitoring work and efforts to protect water quality in Lake Washington is focusing more closely on dissolved copper and zinc, which are known to damage wild salmon populations. Projects being planned include field inventories, public outreach and education, and the installation of water quality treatment devices at key locations in the drainage system.

All Utilities

City utility improvements, particularly water system improvements that are to be completed in conjunction or ahead of street projects will be identified earlier to better accommodate the priorities of both the Transportation Improvement Plan for streets and the priorities of the utilities. When necessary, preliminary design will be conducted to refine the scope of the improvements and provide a more accurate estimate for design and construction costs.

Budget Policies for 2017-2018

- **Water:** Continue to increase rates in order to meet the \$2.8M average annual rate funding target of the 6 year capital plan for Water.
- **Sewer:** Increase rates in order to meet the \$1.2 M rate funding target of the 6 year capital plan for Sewer.
- **Storm Water:** Increase rates slowly in order to meet the \$900,000 rate funding target of the 6 year capital plan for Storm Water.

Utility Fiscal Policies

Background

In 1993 the Utility Board and staff worked closely to establish financial policies to guide future rate and budget decisions. In 2006 the Utility Board reviewed and modified the financial policies related to the Water Utility. The financial policies analysis consisted of identifying, describing, and to the extent possible, evaluating impacts of various elements of the policies. Elements discussed included types and levels of utility reserves, methods of capital improvement funding, methods of capital replacement funding, rate structure and equity, and related objectives such as water conservation.

The fiscal policies, which have been approved by the Utility Board, consist of four major categories that are briefly described below. A complete copy of the policies is included on the following page.

A. Reserves

This section sets the policy for the amount of operating reserves necessary. Sewer and Storm Water operating reserves are set at 30 days of operating expenses while water is set at 75 days (due to the greater seasonality of revenue). The need for a capital replacement reserve is also discussed and the format for establishing such a reserve is fixed.

B. Financing

A policy is set that capital replacement projects will be financed from the replacement reserve established in the reserve section. It also discusses the concept of financing most improvements on a pay-as-you-go basis; however, consideration must always be given to the effect of the rate impacts on customers. It proposes that when projects are over \$500,000 other financing alternatives should be considered.

C. Revenue Requirements

This section summarizes and formalizes our policies to set rates sufficient to meet all utility cash requirements including operating expenses, debt service, and additions to reserves and capital costs. It also reflects the policy to set rates to meet any bond or other debt covenants.

D. Rates and User Charges

There are two policies established in this section. The first policy concerns water conservation. It establishes that the City wishes to promote water conservation and will set water rates that reflect that policy. The second policy concerns the concept of a "lifeline rate" to provide basic water and sewer services at an affordable level. The lifeline rate works with the water conservation volume based structure to provide low levels of water usage at the lowest cost.

Budget Policies for 2017-2018

- Propose rates for the Utilities that reflect the financial policies adopted by the Utility Board.
- Perform annual rate updates for each of the utilities (Water, Sewer, and Storm Water). For preparation of the biennial budget, rates are also forecast for the second year of the biennium.

Budget Policies

Fiscal Policies for Water and Sewer Enterprises

This document is to be read in conjunction with the Level of Service Standards established for the Water and Sewer Systems. Together they form the basis for 1) the updating of the Comprehensive Plans for both Water and Sewer through the end of the decade; 2) the Capital Facilities Plan prepared as part of the City's Comprehensive Plan in response to the Growth Management Act; and 3) the biannual operating plans for each utility. It is intended that these policies be reviewed periodically; at the minimum each time either the Utility's Comprehensive Plan is updated or when the Capital Facilities Plan is updated.

A. Revenue Requirements

1. Cash Needs

Each utility will establish rates sufficient on an annual basis to meet all utility cash requirements including operating expenses, debt service, additions to reserves and rate-funded capital costs.

2. Coverage

Each utility will establish rates sufficient to meet all security conditions of outstanding debt, including any bond coverage requirements. Typically bond covenants require a minimum coverage factor of 1.25, although the City may elect to establish a higher factor in order to enhance its potential bond rating. Should the coverage requirement result in a revenue requirement in excess of cash needs, the budget shall identify the use, transfer or addition to reserves intended for the surplus. Such cash surplus cannot be used to meet operating expenses.

If debt is jointly issued, or issued under conditions pledging all utility revenue, the debt service will be allocated to the water or sewer utilities based on the use of bond proceeds, and the coverage requirement will be allocated to each utility based on their share of the debt service.

B. Rates and User Charges

1. Rate Equity

The City will establish rates and charges, which equitably recover the cost of service from each utility's customers. Changes in rate structure will be accompanied by a cost of service analysis justifying the equity of such changes. Rate structures considered will, to the extent practical and equitable; incorporate other rate objectives as defined in these policies.

2. Conservation

The City wishes to promote efficient and conservative use of water. Therefore, water and sewer rates will, to the extent practical, promote water conservation through an emphasis on volume-based charges and allocation of the cost of meeting peak demands to those users imposing the cost.

3. Lifeline Rates

The City wishes to provide water and sewer service to meet basic human needs at an affordable level. Therefore, rate structures should consider the opportunity to maintain reasonable water and sewer bills at lifeline usage levels. Features such as volume-based sewer charges, increasing block water rates, and low fixed service costs among others help to promote this objective.

C. Reserves

1. Operating (Working Capital) Reserve

It is appropriate to maintain sufficient cash reserves to accommodate routine fluctuations in revenues and expenses. The City therefore establishes operating reserves for the water and sewer utilities. Utility budgets will target ending cash balances sufficient to meet the reserve targets. The following operating reserves are established:

- Sewer - 30 days of operating expenses (8.2% of annual operating budget)
- Storm Water - 30 days of operating expenses (8.2% of annual operating budget)
- Water - 90 days of operating expenses (20.5% of annual operating budget)
(Utility Board increased this reserve as part of the 2006 Water Cost of Service Study)

The water reserve has been established at a higher level than sewer and storm water to reflect the greater seasonality of revenues and to protect against reduced water sales in wet years or during restrictions.

Should the operating reserves for either utility fall below the target level, or should the target level be increased, additions to the reserve will be budgeted to reach and maintain that level within no more than two budget years.

2. Capital Improvement Reserve

It is considered that both the water and sewer utilities are completed to their capacity and that it is not required or prudent to establish a reserve for capital improvements.

There are, however, water and sewer systems now existing on Mercer Island which are not part of the City Utilities. It is the Board's recommendation not to incorporate those other systems into the City Utilities unless those systems meet the performance standards established for the City's water and sewer utilities.

3. Capital Replacement Reserve

It is prudent to protect the City's multi-million dollar investment in utility assets. The City therefore establishes a capital replacement reserve and funding strategy. These reserves should enable the City to support future replacement needs without extraordinary rate increases, while recognizing the responsibility of existing customers to fund both current and future replacement needs on a regular basis.

It is intended that all replacement projects that are to be funded on a pay-as-you-go basis be funded from the appropriate replacement reserve. This requires that the City carefully plan and schedule replacement projects so that the integrity of the replacement reserve is maintained.

The following capital replacement reserve is to be maintained:

Water: 1-2% of original asset value (this formula was originally recommended as 1% by the Utility Board as part of their 2006 Water Cost of Service Study).
The reserve is to be funded by excess revenue in high water use years, and not by raising rates.

Budget Policies

Sewer: Same formula. The reserve will be built up as cash allows following completing of the Sewer Lake Line.

4. Contingency (Emergency) Reserve

It is not considered necessary to establish a separate reserve for the Sewer and Storm Water Funds to handle emergency situations in addition to the replacement reserve. It is considered prudent however that the capital replacement reserve not be scheduled to be less than \$100,000. Should situations arise where the replacement reserve does drop below that level due to an emergency, the reserve level should be restored to at least the minimum level within the following budget year.

5. Bond Reserves

It is an obligation of the City to meet reserve requirements of bonds and loans, which it uses for utility purposes. It is the policy of the City to fully fund such reserves as required by bond covenant or loan agreement.

D. Financing

1. Capital Facilities Planning

Due to the impact of capital costs on rates and charges and due to the variation in funding levels needed over time, each utility will establish and maintain a capital projects schedule of at least six years in duration. Said schedule will be consistent with the Utility's Comprehensive Plan. This schedule will include project description, scheduled year of construction and total estimated cost. Each project will be identified as an improvement project or a replacement project (including repair and rehabilitation). If projects provide both improvement and replacement benefits, then the schedule will include an appropriate allocation of project costs to the two categories and then use the criteria below for the allocated portions.

2. Improvement Projects

Improvements to the system shall be scheduled and budgeted with consideration of the rate impacts that may result. It is the City's intent to make such improvements without the issuance of new debt, except when opportunities for below market rate loans may arise. However, in the case of projects involving a capital outlay of \$500,000 or more per year, the City will evaluate alternatives including phasing, deferral or debt financing as methods to mitigate rate impacts.

3. Replacement Projects

Replacement projects are normally to be funded from the replacement reserve. However, if the funding needs exceed \$500,000 per year, the City will evaluate alternatives to total rate funding to mitigate rate impacts. Alternatives to be considered include phasing and/or deferral of projects or debt financing.

BUDGET POLICES

Capital Improvement Program

This section includes budget polices on the following:

- Capital Improvement Program
- Street Maintenance and Construction
- Information Technology
- Vehicle & Equipment Replacement
- Capital Improvement Program Overhead Charges



Budget Policies

Capital Improvement Program

Background

The City of Mercer Island separates the Capital Improvement Program (CIP) into two parts: the Capital Reinvestment Plan (CRP) and the Capital Facilities Plan (CFP). The CRP contains all major maintenance projects for existing public assets. The CFP consists of proposed new capital assets.

Capital Reinvestment Plan (CRP)

The CRP's purpose is to organize and schedule repair, replacement and refurbishment of public improvements for the City of Mercer Island. The CRP is established as a six-year program setting forth each of the proposed maintenance projects, including the cost and funding source. The individual six-year plans for capital reinvestment serve as the City's capital planning documents as required by the City's Comprehensive Plan (Capital Facilities Element) and the State Growth Management Act.

The program emphasis in a reinvestment plan is timely repair and maintenance of existing facilities. To this effect, while new equipment and improvements are made to some older fixed assets, the intent is to design a program, which will preserve and maintain the City's existing infrastructure. The maintenance and enhancement of the taxpayer's investment in fixed assets remains the City's best defense against the enormous cost of the replacement of older but still very valuable public improvements.

The CIP is intended to be a public document. For this purpose, it is organized by functional area. Hence, any individual who wishes to gain knowledge about a project need not know the funding source or any other technical information but only needs to know the general type of improvement in order to find the relevant information. The Capital Reinvestment Program is divided into four functional programmatic areas: **streets** (including pedestrian and bicycle facilities), **park and recreational facilities** (including open space), **general government** (including building repairs, technology and equipment), and **utilities** (water, sewer, and storm water).

CRP projects are typically "pay as you go", which means funded from the current operations of the Street Fund, Capital Improvement Fund, Technology and Equipment Fund, and the Utility Funds (Water, Sewer, and Storm water).

Capital Facilities Plan (CFP)

The CFP is also a six-year plan to outline proposed new capital projects. The CFP is divided into the same four component parts as the CRP. Like the CRP, the CFP plan for new facilities is intended to provide easy reading. Each project in the plan is described briefly, and the total cost and appropriation for a six-year period is stated. Like the CRP, the CFP serves the capital planning requirements for six-year plans as outlined in the Comprehensive Plan and State Growth Management Act.

As it is with the CRP, the CFP is organized by category of project.

Funding for CFP will generally be decided simultaneously with the approval of the project. This may involve a bond issue, special grant or a source of revenue that is outside the available cash resources of the City.

Budget Policies

Nomination Process

As a part of each biennial budget process, the CIP Committee receives proposals for needed capital projects submitted by the affected department managers, team leaders, advisory bodies, City Council, and others. The CIP Committee compiles and reviews the project proposals, their associated costs and funding sources. Based upon Council priorities and staff-developed project evaluation criteria, the Committee makes a recommendation on project funding priorities to the City Manager. Council-appointed boards and commissions, such as the Utility Board, also provide input to project funding requests.

Project Funding Status

In order to facilitate the review of proposed Capital Projects both during the CIP Preview and the Preliminary Budget, projects have been categorized first by functional programmatic area and then by project funding status. Projects have been sorted within functional area by one of the following four funding status categories:

1. Funded – No changes (except for inflationary adjustments and revised cost estimates)
2. Funded – Modified (in terms of scope and/or timing)
3. Funded – New Project (project was not included in the 2015-2020 Capital Plan)
4. Unfunded or Partially Funded (Project still requires some or all funding before project can proceed).

Routinely, CIP projects have been sorted and presented by category, year of construction, and revenue source. The categorization by project funding status was added starting with the 2009-2010 budget.

Project Management

Project management costs are included in the budget of each capital project, with staff time being charged directly to the appropriate project. The CIP Team in the Public Works Department makes up the project management staffing for Street and Utility projects. In addition, a small percentage of time is spent by Parks staff (i.e. Parks Superintendent, Parks Maintenance Manager, and the Natural Resources Manager) and the Information and Geographic Services Team on capital project management.

CIP Administrative Overhead Charges

Indirect staffing support of capital projects is provided. An analysis of the percentage of time spent by each position supporting the City's capital improvement program is updated every two years by the Finance Department, resulting in a CIP administrative overhead charge to the Street Fund and Capital Improvement Fund. This overhead charge enables the City to recognize the full cost of the City's capital improvement program by reimbursing the General Fund for the staff time spent supporting capital projects. See the budget policy for the Capital Improvement Program Overhead Charge for detailed information on these charges.

Budget Policies for 2017-2018

- Increase public involvement, where appropriate, in the planning and design of capital projects.
- Improve public information about pending construction projects and their impacts (detours, delays, and effects on neighborhoods).
- Use signage, the City's website, and the MI Weekly to highlight certain projects.

Budget Policies

- CRP projects take priority over CFP projects in recognition of the desire to maintain and improve existing assets before acquiring new assets. Acquisition of major new capital assets should generally be funded with new revenues.
- For “macro-financial” issues, staff should use at least a 10-year time frame and extend the financing period out to as much as 20 years for some capital items.
- Use debt financing only when the following conditions exist:
 1. Object of the expenditure is a major new capital asset.
 2. Object of expenditure can be used by residents/taxpayers in the future.
 3. There are insufficient existing capital revenues available.
 4. All the revenue is needed at the same time (i.e. the project cannot be phased over time.)
- Major impacts on the City’s operating funds will be identified and budgeted before projects are approved.
- The CIP is a dynamic plan subject to changes in City Council policy, financial environment, design information, emergencies, and unique opportunities that can arise over a multi-year planning period.
- The CIP will be developed in accordance with requirements of the State Growth Management Act and will be consistent with Capital Facilities Element of the City's Comprehensive Plan.
- Within the context of a biennial budget, the City will develop a six-year plan for capital improvements. The six-year plans contained in the CIP fulfill the City's six-year planning requirements outlined in the Growth Management Act and Comprehensive Plan.
- The City will enact a two-year capital budget based on the Capital Improvement Program.
- The City will attempt to maintain its assets at a level adequate to protect capital investment and minimize future maintenance and replacement costs.
- The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to the City Council for approval.
- Capital projects are budgeted and funds allocated in the year that the project is acquired or constructed.
- Whenever possible, capital improvements will be scheduled and completed in the same year.
- Prior to City Council funding commitments on major capital projects, the City will conduct detailed and professional cost estimating analyses.
- In general, the City will plan and implement capital improvement projects so that the spring-summer-fall construction season is used to the community's greatest advantage.
- Technology projects will be budgeted and accounted for in the Technology Fund.
- When the City receives unanticipated or extraordinary capital revenue, the City Council will consider transferring it to the Capital Reserve Fund, or:
 1. Complete a previously identified, unfunded project;
 2. Add funds to a capital program category (such as parks) for a specific desired project;
 3. Advance an already programmed and budgeted capital project (such as pedestrian and bicycle facilities); or
 4. Complete a project that will decrease maintenance and operating costs.
- Overhead charges associated with the City Manager’s Office, City Attorney’s Office, Finance, and Human Resources Department will be charged to the Capital Project Funds and credited to the General Fund.

Budget Policies

Street Maintenance and Construction

Background

As part of each biennial budget cycle, City staff develops and prioritizes street, pedestrian and bicycle facilities maintenance and construction projects. The proposed projects are reviewed annually during the Six-Year Transportation Improvement Program (TIP) and biennially during the Capital Improvements Program (CIP) planning processes. Both the TIP and the CIP plans are submitted to and ultimately approved by the City Council.

Streets are regularly evaluated and prioritized for improvement based on a formal Pavement Condition Rating and other criteria (review of safety, maintenance and implementation). The criteria are not weighted in order to maintain flexibility needed to accommodate unexpected needs or opportunities. However, the results provide predictability for when particular streets are expected to be improved. In addition, the City periodically analyzes intersections to measure the traffic impacts associated with development proposals to maintain the City's adopted traffic level of service standard. Project impacts determined by this analysis will be mitigated through the SEPA process. Whenever possible, staff plans utility projects to precede street construction and plans construction of pedestrian and bicycle facilities with nearby arterial and residential street projects.

Assuming implementation of the following budget policies, this level of funding will support completion of the highest priority transportation projects in the upcoming biennium, including implementation of projects identified in the Pedestrian and Bicycle Facilities Plan, adopted by the City Council in June 2010.

As prescribed by state law, the City Council adopts a "Six-Year Transportation Improvement Program" as part of the budget process. The Six-Year Plan covering the 2017-2018 biennium was adopted by City Council in July of 2016 and is included in the proposed Capital Improvement Program (see Section G of the budget). Adoption of the program also serves to implement portions of the City Comprehensive Plan (Transportation and Capital Facilities Elements).

At the May 19, 2014 Council meeting, during the 2015-2020 TIP Preview and Public Hearing, the Council discussed the forecasted deficit in the Street Fund. Specifically, without additional revenue or significant cuts to the 2015-2020 TIP, it is projected that the Street Fund will have a negative balance of \$1.7 million by 2020. Based on this funding need, the Council formed a Transportation Benefit District in October 2014. Fee collection began in June 2015.

Transportation Benefit Districts

Many cities and counties across the state have been struggling with similar transportation issues. In response, the Legislature amended state law in 2005 (RCW 36.73) to allow cities to create a "Transportation Benefit District" (TBD). This tool authorizes cities and counties to establish a district with authority to impose new fees and taxes to fund transportation improvements such as maintenance of and improvements to local transportation infrastructure. A TBD may raise revenue in two ways. Without voter approval, a TBD may establish an annual vehicle fee of up to \$50 per vehicle and impose transportation impact fees on commercial and industrial buildings. Fees may be increased from \$20 to \$40 per vehicle after 24 months, and again from \$40 to \$50 per vehicle after an additional 24 months. With voter approval, a TBD may impose a sales tax of up to 0.2% (RCW 36.73.040) for a period up to 10 years. The governing board of a TBD may be a City Council. Cities who have established a TBD include Auburn, Bellingham, Bremerton, Burien, Des Moines, Edmonds, Lake Forest Park, Lynnwood, North Bend, Olympia, Seattle, Sequim, Snohomish, Snoqualmie, and University Place. There are 17,687

Budget Policies

registered vehicles in the City of Mercer Island (based on information from DOL in July 2014). The \$20 annual vehicle fee yields about \$350,000 in annual revenue for the maintenance and improvement of Mercer Island's transportation infrastructure.

In 2017 and 2018, the City anticipates revenues, including TBD revenue, of \$2.6M per year. This level of reinvestment in the City's streets and pedestrian and bicycle facilities systems will ensure that the City's arterial and residential streets will be maintained at safe and efficient levels within 20 or 35 year life cycles.

Budget Policies for 2017-2018

- 100% of annual fuel tax revenues will be used for pavement marking, patching, residential street overlays and substandard street upgrades.
- 100% of annual transportation benefit district revenue will be used for bus transit services and arterial street maintenance.
- An annual average of \$420,000 in Real Estate Excise Tax revenue (2nd quarter-cent) is dedicated to pedestrian and bicycle facility maintenance and construction projects in 2017-2018.
- The remaining balance (\$1,183,000 in 2017) of annual Real Estate Excise Tax revenue, along with any available fund balance, is dedicated to major street construction projects and other transportation projects and activities.
- The Storm Water Utility will absorb an appropriate share of the costs of adding drainage systems to some residential streets. The Water Utility will help fund the replacement of services and hydrants in neighborhoods where it is determined to be appropriate. This will allow certain residential streets in need of repair to move up on the priority list for the residential street repair program.
- In 2017-2018, Real Estate Excise Tax revenue will continue to be split evenly between the Street Fund and the Capital Improvement Fund, in order to maintain reasonable levels of reinvestment in all REET funded assets (streets, parks, and buildings).

2017-2018 Budget Impact

Description	2015	2016	2017	2018	Percent Change	
	Actual	Forecast	Budget	Budget	16-17	17-18
RESOURCES						
Budgeted						
Beginning Fund Balance	\$ -	\$ 2,167,990	\$ 186,868	\$ 925,837	-91.4%	395.4%
Real Estate Excise Tax	1,634,689	1,775,500	1,582,500	1,642,000	-10.9%	3.8%
Motor Vehicle Fuel Tax	491,973	522,000	519,000	498,000	-0.6%	-4.0%
General Govt / Grants / Fines	-	113,300	40,000	40,000	-64.7%	0.0%
Interfund Transfers In	345,859	485,000	400,000	350,000	-17.5%	-12.5%
Total Budgeted Resources	\$2,472,521	\$5,063,790	\$2,728,368	\$3,455,837	-46.1%	26.7%
Not Budgeted						
Beginning Fund Balance (Reserved)	3,000,439	1,314,693	1,992,520	1,066,683	51.6%	-46.5%
TOTAL RESOURCES	\$5,472,960	\$6,378,483	\$4,720,888	\$4,522,520	-26.0%	-4.2%
USES						
Budgeted						
Residential Street Preservation	\$ 667,473	\$ 451,068	\$ 563,000	\$ 789,000	24.8%	40.1%
Arterial Street Improvements	750,247	1,518,063	936,000	1,552,000	-38.3%	65.8%
Pedestrian & Bicycle Facilities	132,808	1,463,708	485,000	354,000	-66.9%	-27.0%
Other Transportation Projects	160,506	206,076	259,808	264,834	26.1%	1.9%
Other Transportation Activities	273,142	372,680	484,560	496,003	30.0%	2.4%
Interfund Transfer	6,101	187,500	-	-	-100.0%	N/A
Total Budgeted Expenditures	\$1,990,278	\$4,199,095	\$2,728,368	\$3,455,837	-35.0%	26.7%
Not Budgeted						
Ending Fund Balance	3,482,683	2,179,388	1,992,520	1,066,683	-8.6%	-46.5%
TOTAL USES	\$5,472,960	\$6,378,483	\$4,720,888	\$4,522,520	-26.0%	-4.2%

Budget Policies

Information Technology

Background

Local governments, like Mercer Island, use technology to provide and support services delivered to the public. Citizens expect these services to be streamlined, efficient, and easily accessible. To do so, City staff must utilize and maintain available technology as well as prepare for and implement new technology.

A primary and significant City business function is information management—creating, disseminating, and archiving diverse and rapidly changing information and data for staff and citizens. To do so efficiently and effectively within the City, Information and Geographic services support:

- Over 250 telephone handsets and 585 business lines
- Server, Network, and Phone System Equipment (Over 100 different pieces of equipment make up the City's network infrastructure)
- 200+ workstations servicing over 230 users
- 9 major business-specific applications as well as over 75 productivity applications
- 7 primary City facilities and over 30 other City facilities including sanitary sewer pump stations, water reservoir, and parks facilities
- Remote network access and wireless network applications
- Over 500 Layers of Spatial Information related to City Infrastructure and Assets
- Several Websites for Public Use
- Channel 21 also known as MITV, the City's public TV channel

This infrastructure services public safety, financial, payroll, utility billing, geographical mapping services, citizen and customer maintenance requests, internal and external websites, electronic newsletters, security systems, maintenance management tools, building permit systems, water and waste water monitoring, facility scheduling and recreational activity registration, irrigation and ballfield lighting controls and more.

Wise City investment in technology tools (hardware, software, networks, phone systems, etc.), regional technology partnerships, and strategic innovation enables the City to maximize its limited human and financial resources.

The City will continue to replace and upgrade its Information and Geographic Systems, support business specific applications, and pursue pilot projects where innovations may improve service delivery or provide services more efficiently.

The Information and Geographic Services (IGS) Team is dedicated to:

- Insuring 24/7 reliability of the City's core business systems through timely upgrades, patches and redundant infrastructure configuration as well as prompt vendor and IT support response;
- Pursuing reputable and reliable off-the-shelf software systems and standardizing custom development whenever possible;
- Focusing Information and Geographic Services investments on core business needs and pursuing inexpensive solutions; and

Budget Policies

Budget Policies for 2017-2018

- Maintain City’s investment in computer, server, network, and voice infrastructure by replacing equipment on a planned schedule. For example, most computers have reached their useful life and are scheduled to be replaced on a 4 year cycle.
- Maintain City’s investment in major systems and databases through periodic software and hardware updates.
- Procure and implement an asset and maintenance management system with Public Works.
- Facilitate the management and planning for permitting, facilities, streets, right of way, utilities, parks, open space, and other public assets and infrastructure through effective use of geospatial technology and systems integration.

2017-2018 Budget Impact

Charges	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
Computer and Printer Replacements	\$134,381	\$109,448	\$217,000	\$185,000
Capital Reinvestment – Technology	100,497	636,462	532,000	334,000
Total	\$234,878	\$745,910	\$749,000	\$519,000

Vehicle and Equipment Replacement

Background

The individual units of the City's fleet are assigned to the various operating departments, but are accounted for in the City's Equipment Rental Fund. The cost of maintaining and replacing the City's fleet, which includes vehicles, heavy equipment and radios, is funded through internal user charges that are developed for each class of vehicle, equipment type, and radio. The internal user charges, or fleet rates, include a charge for operations and maintenance and a separate charge for replacement. Distinct replacement reserves have been established for the accumulation of funds to replace vehicles and equipment, fire apparatus, and emergency radios. The current fleet of vehicles and equipment stands at 141 units and has an estimated asset value of approximately \$9.1 million (based on purchase cost).

The operations and maintenance (O&M) rate is determined biennially and is intended to recover the actual costs of operating and maintaining the City's fleet from the departments to which the vehicles and equipment are assigned. Costs include fuel consumption, repair and maintenance supplies and services, auto insurance, and mechanic hours. Actual historical cost experience is used as the basis for projecting the future O&M burden for each vehicle class. That projected cost burden is then charged out to the departments through fleet O&M rates.

The fleet replacement rates are developed biennially for each vehicle and piece of equipment in the fund. There are two replacement rate models: 1) general government vehicles and equipment, and 2) utility vehicles and equipment. Each model projects the annual cash outflows to replace the current fleet over a 30 year period based on the current estimated replacement cost, annual inflationary factor, useful life assumptions, and estimated salvage or trade-in value for each vehicle and piece of equipment. Based on these projected annual cash outflows, the total annual cash inflow (plus an annual growth factor) needed to maintain a positive fund balance over a 30 year period is determined. The total annual cash inflow requirement is then allocated proportionately to each vehicle and piece of equipment in the fleet based on the present value of the projected cash outflows for that vehicle or piece of equipment over a 30 year period relative to the total projected cash outflows for the entire fleet.

The vehicle replacement reserve currently is maintained to allow for future inflation costs at a rate of 1.5% to 3.5%. For specialized equipment, the rate may exceed this range. Vehicle replacements for 2017 and 2018 are budgeted at \$856,000 and \$715,000 respectively.

There are a few vehicles within the fleet which are used in support of services that are funded partially by the General Fund and the three Utility Funds. The fleet rates associated with these vehicles are allocated to the utility funds based on either the Interfund Administrative Charge policy or the allocation of the FTE who is the primary user of the vehicle.

A separate replacement reserve for fire apparatus was established in the Equipment Rental Fund in 2007. Beginning in 2008, a 1.65% property tax levy was approved (1.0% optional plus 0.65% banked capacity) as a dedicated funding source for this purpose. See the Fire Apparatus Replacement Policy for more information.

Budget Policies

Budget Policies for 2017-2018

- Excluding fire apparatus, the useful life of each vehicle and piece of equipment was evaluated as part of a comprehensive fleet audit in 2015. Crew vehicle replacements were extended from an 8 year useful life to a 10 year useful life, and patrol vehicles were extended from 3 year useful life to 4 year useful life. Accordingly, fleet replacement rates were reduced in 2017-2018 compared to 2015-2016.

2017-2018 Budget Impact

Expenditures	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
Vehicle Replacements	\$696,724	\$578,435	\$856,000	\$715,000
Fire Apparatus Replacements	341,295	0	0	745,000
Radio Replacements	0	0	0	0
Total	\$1,038,019	\$578,435	\$856,000	\$1,460,000

Capital Improvement Program Overhead Charges

Background

Various departments, which are accounted for in the General Fund, provide administrative support to the City's capital program. Administrative support includes such activities as bid process oversight, contract review, communications, and project accounting and reporting. Capital projects are accounted for in the Street Fund, Capital Improvement Fund, Technology and Equipment Fund, and the Utility Funds (Water, Sewer, and Storm Water). Capital projects are budgeted based on all costs associated with a project including design, construction, and project management.

While not built directly into the cost of a project, administrative support to capital projects is a proper cost of the projects, and is charged to the capital project funds through overhead charges. For the Utility Funds, this cost is included in the Administrative Overhead Charges (see the Utility Overhead Charges Budget Policy). In order for the capital project fund budgets to reflect the full costs of project administration, an interfund charge is assessed to both the City's Street Fund and Capital Improvement Fund. The Technology and Equipment Fund is excluded, because the funding source for this fund is the General Fund. In effect, the General Fund charges both the Street and Capital Improvement Funds for costs that support capital projects.

Administrative Charges

There are five cost centers in the General Fund that benefit the City's capital projects: City Attorney's Office, City Council, City Manager's Office, Finance Department, and Human Resources Department.

The portion of the City Attorney's Office, City Council, and City Manager's Office budgets which can be attributed to capital projects is based on the proportion of agenda bills and contracts which are related to each capital fund for 2014-2015 (the 2 full years preceding the development of the 2017-2018 Budget).

The portion of the Communications budget which can be attributed to capital projects is based on the number of MI Weekly articles and press releases related to capital projects during the period September 2014 to August 2016.

The portion of the Finance Department budget which can be attributed to capital projects varies according to position. Two positions (Accounting Manager and Accounts Payable Clerk) are allocated based on the percent of GL Transactions related to the Street (3.6%) and CIP Fund (4.7%) in 2015. An additional two positions are allocated to the Street and CIP Funds based on the percentage of time spent by each position on capital project related tasks as follows: Finance Director (4.8%) and Deputy Finance Director (15.6%). Three remaining employees are largely Utility focused and are excluded from the Capital Improvement Program Overhead Charges.

The portion of the Human Resources Department budget which can be attributed to the Street and CIP Fund is based on the number of project manager and CIP support employees relative to the total number of City employees. This count is assessed as part of the Preliminary Budget process, based on approved FTE's for the biennium.

In addition to these five cost centers, a portion of the Maintenance Director and Parks and Recreation Director positions is attributed to the Street and CIP Fund based on the number of project manager and

Budget Policies

CIP support employees relative to the total number of employees in each department. This count is assessed as part of the Preliminary Budget process, based on approved FTE's for the biennium.

Administrative Charges to Street Fund

Administrative Charges to the Street Fund are summarized in the table below:

General Fund Cost Center	Interfund Charges	2017	2018
City Attorney's Office	6.4% of budget	\$ 26,317	\$ 27,150
City Council	6.4% of budget	1,329	1,329
City Clerk	6.4% of budget	13,427	14,169
Communications	3.4% of budget	2,697	2,786
Finance Department	Varies by position	32,286	33,304
Human Resources Department	1.0% of budget	4,575	4,610
Maintenance Director	6.5% of budget	14,724	15,177
Total		\$ 95,355	\$ 98,525

Administrative Charges to Capital Improvement Fund

Administrative Charges to the CIP Fund are summarized in the table below:

General Fund Cost Center	Interfund Charges	2017	2018
City Attorney's Office	17.2% of budget	\$ 70,728	\$ 72,966
City Council	17.2% of budget	3,572	3,572
City Clerk	17.2% of budget	36,084	38,080
Communications	7.1% of budget	5,632	5,818
Finance Department	Varies by position	35,975	37,108
Human Resources Department	1.1% of budget	5,032	5,071
Parks and Recreation Director	7.3% of budget	16,537	17,045
Total		\$ 173,560	\$ 179,660

Budget Policies for 2017-2018

- Ensure that the General Fund does not subsidize the City's Street or Capital Improvement Fund.
- Assess interfund charges for administration to the Street and Capital Improvement Funds in 2017 and 2018 per the allocation factors and the Preliminary Budget amounts noted above.

2017-2018 Budget Impact

Charges	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
Street Fund Admin Charges	\$ 97,482	\$102,699	\$ 95,355	\$98,526
CIP Fund Admin Charges	\$129,212	\$134,896	\$173,560	\$179,660
UTILITY Fund Admin Charges			<i>Included in UTILITY Admin Charge</i>	
Total	\$226,694	\$237,595	\$268,915	\$278,185

BUDGET POLICES

Development Services

This section includes budget polices on the following:

- Development Review Fees



Budget Policies

Development Review Fees

Background

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).”

Mercer Island seeks to recover all eligible costs on those permits that have an overwhelming private benefit (i.e. building permits) and seeks to recover less than all eligible costs on those permits that have a mix of private and public benefits (i.e. certain planning and engineering permits). A 2016 study of DSG costs and revenues concluded that 99% of the total costs of activities eligible for cost recovery in 2015 were supported by development fee revenues.

DSG provides a number of services which are either not related to permit review or are indirectly related. Those services include code enforcement (for activities not directly related to a permit), mediation and/or resolution of neighborhood disputes and impact mitigation, permit appeals, public information, and the development and implementation of special projects and programs such as affordable housing, shoreline planning, Town Center planning, transportation planning, sustainable development efforts, maintaining and updating development codes, emergency planning and disaster response, and activities required by the State’s Growth Management Act (GMA). These tasks are generally considered to be costs associated with the general purpose of government. The use of permit fees to pay for general purpose government costs has been successfully challenged at other jurisdictions within the state.

Based on the 2016 cost of service and fee analysis, the City Council approved adjustments to the DSG fee schedule based on a desired recovery level of 95% for eligible Building Services, 80% for eligible Planning Services and 80% for eligible Engineering Services costs. Annual permit fee increases will be directly tied to the annual growth in personnel costs (salaries and benefits) of DSG staff. The annual escalator is determined by comparing the budgeted salaries and benefits in the coming year to the actual salaries and benefits in the current year for all “regular” (i.e. not contract) DSG staff.

Development is cyclical in nature. Development activities, fees and the sales and real estate taxes generated by those activities, change from year to year with the ups and downs of the economy. In addition, many development projects are not completed within a single year, with some taking several years to complete. Staffing and outside consultant resource levels must be carefully adjusted to respond to these swings in activity if expected levels of customer service and fiscal responsibility are to be maintained. When the workload exceeds resource capacity, customer service and staff efficiency may suffer. Applicants may experience delays in permit times which can add significantly to the cost of development. When the workload is lower than resource capacity, customer services may improve in the short term, but the revenues anticipated for funding the budgeted capacity may be less than expected, and resource reductions may be required.

Following the 2004-2007 boom years, aggressive real estate activity came quickly to an end during the latter part of 2008 and throughout 2009, with both workload and revenues in decline. DSG responded to this slowdown by reducing staff and nearly eliminating outside consultant plan review. Permit workload and revenues continued to fall and bottomed-out in 2010. Recovery began slowly in 2011 and continued into 2012. In late 2012, permit activity began to grow rapidly hitting an all-time high in 2015, in terms of development revenue. In 2016, the City is on pace to surpass the development revenue record in 2015. In recognition of the increased permit workload, the City Council authorized additional

Budget Policies

permit review resources in 2013 and 2014, which were retained in 2015-2016. When permit approvals are delayed as a result of longer processing times, there is a corresponding impact on the collection of sales tax on a development project and the addition of “new construction” to the property tax rolls.

Development Activity

Type of Work	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	Act	Act	Act	Act	Act	Act	Act	Act	Est	Est
Total valuation (millions)	\$30.9	\$51.6	\$60.6	\$59.4	\$74.0	\$90.2	\$130.6	\$96.9	\$80.0	\$70.0
Single family residential permits	252	271	268	248	337	332	334	366	340	310
Commercial/multi-family/other permits	54	64	62	77	74	62	40	52	60	55
Over-the-counter permits	1,511	1,498	1,666	1,783	2,189	2,316	2,511	2,690	2,400	2,200
Pre-application meetings	91	62	76	141	184	205	194	212	175	160

Budget Policies for 2017-2018

- Growth should pay for growth. The City will seek cost recovery of 95% for eligible Building Services, 80% for eligible Planning Services and 80% for eligible Engineering Services. The desired cost recovery levels recognize the private benefits associated with building permits and the mix of public and private benefits associated with certain planning and engineering permits.
- Annual permit fee increases will be directly tied to the annual growth in personnel costs (salaries and benefits) of DSG staff, which is projected to be 3.9% in 2017 and 3.3% in 2018.
- DSG should carefully balance resources with workload and maintain sufficient staff (and if needed outside consultant) resources to maintain the high level of customer service for permit and plan review. It is especially important to maintain quick permit turnaround times to facilitate construction, which then generates sales tax and property tax revenue.
- Conduct a cost of service and cost recovery fee analysis in the first half of 2018 to ensure that development fees are recovering costs at the Council adopted target levels for Building Services, Planning Services, and Engineering Services. This effort is encompassed within a \$20,000 service package request.

2017-2018 Budget Impact

Development Revenues	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
Single Family – New/ Remodel	\$1,660,692	\$1,720,700	\$1,624,000	\$1,464,000
Multi-Family / Commercial	496,323	435,000	441,000	420,000
Land Use	401,352	374,600	379,000	335,000
Plat Improvement Permits	136,606	50,000	51,000	52,000
Street Use	160,695	148,000	95,000	95,000
Storm Drainage	58,980	68,000	80,000	80,000
Total Revenues	\$2,917,131	\$2,796,300	\$2,670,000	\$2,446,000

Budget Policies

Budget Policies

BUDGET POLICES

Parks and Recreation

This section includes budget polices on the following:

- I-90 Landscape Maintenance
- Luther Burbank Park
- Parks and Recreation Financing
- Trees and Urban Forest Lands



Budget Policies

I-90 Landscape Maintenance (Aubrey Davis Park)

Background

In 1992, The Washington State Department of Transportation (WSDOT) completed construction of the I-90 roadway on Mercer Island. By 1994, the Park-on-the-Lid and other landscaped areas were completed by WSDOT and incrementally returned to the City for community use and maintenance. By 1998, all the agreed-upon property landscaped by WSDOT, totaling 79.5 acres, had been turned back to the City. In 2013, the Park-on-the-Lid name was officially changed to Aubrey Davis Park in honor of Mercer Island’s former Mayor, Aubrey Davis. The following chart illustrates the transition:

Year	City Owned	WSDOT Owned	Total Owned
1992	0	8.6	8.6
1993	0	8.6	8.6
1994	11.3	15.7	27
1995	11.3	15.7	27
1996	25.6	52.4	78.0
1997	25.6	52.4	78.0
1998 - present	25.6	53.9	79.5

All 53.9 acres of State-owned properties are managed by the City under a lease agreement that will expire in 2034. Within this agreement WSDOT has agreed to compensate the City for the maintenance costs of these 53.9 acres. Revenue from WSDOT is scheduled to continue throughout the lease period and will be adjusted for inflation annually with a formula driven by the Consumer Price Index. For the 25.6 acres owned by the City and improved by WSDOT during the construction of I-90, the City receives no compensation from WSDOT for its maintenance efforts.

Since early on, the City’s goal has been to establish a funding model where all 79.5 acres of the I-90 property will be maintained within the reimbursement funds received from WSDOT for I-90 landscaping.

During a detailed level of service presentation in 2000, the City Council agreed that the City’s maintenance standard for I-90 is correct. The current maintenance program and budget attempt to meet or exceed the level of care standards agreed on with WSDOT. These standards are similar to the standards the City adheres to in its other major park facilities, and are consistent with the expectations of the Island’s park users.

Maintenance costs have increased and the WSDOT lease payment is no longer enough to cover the costs for maintaining both the State’s and City’s portion of the I-90 corridor. As a result, Parks staff has been forced to look at alternative funding sources to supplement the reimbursement the City receives from the State to maintain the current level of service. In recent years, the City Council has directed staff to balance expenditures against revenues from WSDOT reimbursement for as long as possible and then to use the City’s Beautification Fund revenues to cover any shortfall.

It’s important to recognize that as these facilities gain in levels of use and age, there will be increased costs to absorb for ongoing maintenance such as turf restoration, litter control, graffiti removal, plant

Budget Policies

and tree replacement, pathway overlays, etc. These costs are difficult to anticipate in part because the agreements are vague as to what constitutes “maintenance”. Therefore, the costs to maintain the facility at its current level will make it increasingly necessary to explore combinations of additional cost recovery options or expenditure reductions, as well as interagency work on clarifying capital reinvestment responsibilities.

Staff will continue to explore possible options including increasing I-90 facility user fees (such as boat launch, picnic shelter, and ball field use fees), finding efficiencies in water and power consumption, or lowering the level of maintenance to meet WSDOT revenue projections. Lowering the level of maintenance is a less desirable alternative since public feedback favors the high standard of appearance for the landscaped areas, and the continued heavy use of the athletic facilities requires high maintenance to keep them safe and playable. Experience with other Mercer Island parks suggests that deferring maintenance in the short term will result in expensive restoration costs in the future.

Any further development, such as additional restrooms and ballfields will require additional funding in order to provide adequate maintenance service and to provide the current presentation standard.

Budget Policies for 2017-2018

- Limit the growth in expenses to operate the facility relative to the reimbursement level from the State.
- Seek continued efficiencies in water and power consumption.
- Consider lowering the level of maintenance in some the I-90 facility areas where little or no public impact is anticipated.
- Clarify maintenance and capital reinvestment responsibilities with WSDOT.

2017-2018 Budget Impact

	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
Revenue				
Landscaping Services (WSDOT)	485,882	492,584	500,502	510,000
Business and Occupation Tax	\$ 119,599	\$ 91,363	\$ 85,848	\$ 90,623
Total Revenue	\$ 605,481	\$ 583,947	\$ 586,350	\$ 600,623
Expenditures				
I-90 Landscape Maintenance	605,481	583,947	586,350	600,623
Total Expenditure	\$ 605,481	\$ 583,947	\$ 586,350	\$ 600,623

Luther Burbank Park Operation, Maintenance and Park Master Planning

Control of Luther Burbank Park passed from King County to the City on January 1, 2003. Initial City operation mirrored the final years of King County operation. The City's intention was to protect public safety and maintain general security.

Upon receiving direction from Council, staff prepared a multi-year capital improvement plan and an estimate of annual operating costs. These budget projections were used to prepare proposals for funding ongoing Luther Burbank costs into the long term future; a property tax levy proposition. Past guidance and policy action embraces the notion that when the City has taken on a major new asset, stable ongoing revenue sources are needed to support them. Staff estimated ongoing operations and maintenance at \$315,000 with an additional \$100,000 needed each year in minor capital repairs and replacements. In September 2003, the City Council directed that the question of new revenue in the annual amount of \$415,000 for the specific purpose of paying for existing and future expenses for a period of six years to maintain and operate upper and lower Luther Burbank Park at prescribed levels of service be placed before Mercer Island voters. In November 2003, voters approved this property tax levy increase and in 2004 staff increased their maintenance frequencies to high impact areas of the park and pursued the implementation of the capital maintenance and repair plan.

Public Involvement

In addressing the long term vision for the park, a public involvement plan was developed to serve as a road map for how the Mercer Island community would be involved in the visioning process. The public involvement goals, included:

- Provide a wide range of opportunities for diverse interests to be informed about and involved in the development of community design guidelines for Luther Burbank Park.
- Provide the Mercer Island City Council with a comprehensive understanding of the community's visions, values and priorities for Luther Burbank Park.
- Create a sense of community cohesiveness and ownership in Luther Burbank Park, making the transition from a County Park that just happens to be located on Mercer Island to a park in which all Mercer Island residents can feel truly proud.

The result of the community visioning process was the development of a set of 15 community design guidelines that were then used to set the stage for the longer-term master plan process:

- 1) Preserve the existing serenity of the park.
- 2) Protect and enhance the shoreline experience.
- 3) Protect and enhance wetland areas.
- 4) Preserve existing historical and cultural resources.
- 5) Rehabilitate the swimming beach.
- 6) Expand court usage.
- 7) Maintain and improve the existing meadow.
- 8) Provide for an off-leash dog area.
- 9) Revitalize the dock area.
- 10) Expand and enhance activities for children.
- 11) Consider new picnic facilities.
- 12) Explore opportunities for new seasonal food vendors and special events.

Budget Policies

- 13) Create a greater ease of connection with Upper Luther Burbank.
- 14) Create a greater ease of connection with the new community center.

These guidelines were developed over a three month period from November 2004 through January 2005 and included three public workshops as well as numerous written and emailed responses. The City Council approved the Guidelines on February 7, 2005.

Park Master Planning

The City Council then initiated a Master Planning Process for Luther Burbank Park on September 6, 2005. Guided by the results of the Community Visioning Process, three discrete planning phases were developed: 1) Information Gathering/Concept Design Development; 2) Review of Concept Designs; and, 3) Review of Preferred Concept Design.

A public involvement program was developed to provide for multiple and varied opportunities for public involvement and input. The eight-month long master planning process included 15 opportunities for public involvement including one in-park public workshop, seven small group work sessions, two town hall style meetings and five City Council meetings (four of which had public hearings). Throughout the entire process, citizens were also encouraged to submit their comments by mail, email or fax. This finalized master plan report includes plan graphics, description of the design elements and cost allowances for its implementation.

Master Plan Implementation: Projects and Programs

A more significant and high priority project identified in the master plan was the restoration of the shoreline. As part of its six year parks capital improvement program, the City completed a \$1.3 million shoreline and off-leash area renovation project in December 2009. The Shoreline project added woody debris and spawning gravel along the shoreline for bank stabilization, removed non-native plants, planted native trees and shrubs, and installed a split rail fence. New designated shoreline access points have been created. In 2013, designs were completed for Phase II (Calkins Point) and Phase III (South Shoreline) shoreline restoration projects. Construction of Phase II Calkins Point began mid-summer of 2015 and was completed in late spring of 2016 at a total cost of \$364,000. Grant funding is being sought to construct Phase III in 2017.

In addition to the shoreline and off-leash area improvements, the boiler building and dock facility was transformed into a boating, sailing and kayaking instructional area focused on orienting youth, adults and families to water based recreation activities. New windows and doors were installed on the boiler building, in addition to new coats of interior paint, and the installation of colorful interior banners. The restrooms in the dock area, previously shuttered, were re-opened in spring 2010. A low elevation floating dock was constructed to support the water-based recreation programming. Feasibility for Boiler Room remediation and reuse is currently being explored.

Continued implementation of the park Master Plan included the playground replacement in 2013. With the assistance of the Mercer Island Pre-School Association and the generous support from the Mercer Island Community, the new playground was transformed to include a new zip-line, embankment slides, and new playground surfacing. This project was highlighted by maintaining some of the existing character of the park, while introducing new play elements.

In the Master Plan, a trail connecting Luther Burbank Park to Town Center and Upper Luther Burbank Park was envisioned on a hillside owned by Washington State Department of Transportation (WSDOT). After several years of planning and design with WSDOT using King County Prop 2 Parks and Trails Levy

funding, the City is close to a property agreement for this new facility. Inclusion of this trail connection in a future Comprehensive Plan would satisfy one of WSDOT's outstanding criteria.

Funding Ongoing Operations and Maintenance

Mercer Island City Council approved ordinances which placed two parks measures on the November 4, 2008 ballot. Mercer Island voters approved a \$900,000 per year park operations and maintenance levy, but rejected a \$12.0 million capital levy to fund park capital improvements.

The failed Parks Bond included funding for shoreline restoration and other improvements at Luther Burbank Park, ballfield improvements, trail development, development of a small dog off-leash area, swim beach improvements, and Mary Wayte Pool improvements.

The Parks Operations & Maintenance Levy for \$900,000 per year includes funding for open space and forest restoration and school related park and recreation activities. The 15-year Parks Operations & Maintenance Levy replaces the previous 6-year Luther Burbank Park levy approved by voters in November 2003.

Budget Polices for 2017-2018

- Pursue approved Capital Improvement Plan projects for Luther Burbank Park.
- Continue routine, preventative, special response and capital maintenance activities to ensure grounds, buildings and infrastructure will remain serviceable, functional, and safe for park users and neighbors.
- Pursue vegetation management activities, including wetlands restoration, invasive plant species removal, and re-vegetation and planting activities.
- Prevent and mitigate hazards to public safety and security through active and passive measures such as improved lighting, routine inspections, police vehicle, bike, boat and foot patrols and park checks.
- Park grounds will remain available to individual and group users at a scope and scale similar to that under County management in 2000-2002.
- Insure the public's safety by providing beach lifeguards through the summer swim season.
- Continue to support boating, sailing and kayaking programs and other aquatic recreation activities at Luther Burbank Park.
- Pursue grant funding for shoreline restoration Phase III and Phase IV.
- Pursue the trail connection between Luther Burbank Park and the Lid Overlook Park with WSDOT and include this facility in a future Comprehensive Plan amendment.

Budget Policies

2017-2018 Budget Impact

	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
Revenue				
Property Tax (2008 LB Levy Lid Lift)	914,808	926,990	936,260	945,623
Total Revenue	\$ 914,808	\$ 926,990	\$ 936,260	\$ 945,623
Expenditures				
CIP Fund:				
Luther Burbank Minor Improvements	\$ 110,000	\$ 110,000	\$ 110,000	\$ 110,000
Open Space Vegetation Management	65,000	65,000	65,000	65,000
Pioneer Park Capital Improvements	77,000	77,000	77,000	77,000
General Fund:				
Luther Burbank & School Related M&O	582,634	649,975	659,948	682,373
Total Expenditure	\$ 834,634	\$ 901,975	\$ 911,948	\$ 934,373

Parks and Recreation Financing

Department Financing

The Park and Recreation Department's operations have historically been funded from a variety of sources, including user, program and special event fees, grants, sponsorships, donations, rental and lease fees, as well as a number of independent funds including General, Beautification, I-90 Landscape Maintenance, King County Park Levy, and the Luther Burbank Park Levy. Financing of administration and recreation services has relied on a balance between user fees and contributions from the General Fund, while park maintenance services have relied on contributions from all of these Funds. The MICEC's primary source of funding has been generated through rental fees (short-term room rentals and long-term daycare/pre-school space in Annex) and drop-in sports programs.

Overall Department attention has shifted to maintaining and preserving assets, such as the Mercer Island Community and Event Center (MICEC), Luther Burbank Park, ballfields, trail infrastructure, and other park facilities, in an economically feasible manner that can be financially and operationally sustained over time. This shift will also be applied to recreation programs where staff will continue to be mindful of balancing changing community trends in programs and services, with the budgetary limitations faced in Parks and at the MICEC. With cost recovery continuing to be one of the top priorities, rental fees were increased in 2015-16, and will again be increased in 2017-2018 as the market allows.

Parks Maintenance

With the adoption by the Council of a revised Parks and Recreation 6-year Master Plan in early 2014, the department will remain eligible to apply for various matching grants offered by the State of Washington's Recreation and Conservation Office, to assist in the acquisition and development of parks and facilities. When obtained, such grants will relieve the Capital Improvement Program and leverage Real Estate Excise Tax (REET) funds to a greater degree.

As part of the Capital Improvement Program (CIP), staff has identified and budgeted project management costs in each Parks project. Administrative and operations staff will be relied on to manage park planning, improvement and construction projects.

The Field Use and Reservation Policy is an important component of recreational sports on Mercer Island. The policy has been revised repeatedly over the years with input from user groups. In 2016, Parks and Recreation released a revision that affirmed the department's priority for resident recreational play and clarified various aspects of the field allocation process. This revision triggered an analysis of the fee structure for field rentals. It was determined that grass fields rates had remained the same since 2011 and that the fees set for synthetic turf fields were not adequately funding the sinking funds established for turf replacement. As a result, a new fee structure was created for implementation in 2017. A new field rental fee structure was implemented for all ballfield user groups to help maintain ballfields, including natural grass fields.

The renovation of the South Mercer All Weather Field to a synthetic field turf surface with upgraded lighting in 2007 has resulted in an increase in use and user fees at that facility. In 2010, the South Mercer Playfields were renovated, and in 2012 the north infield at Island Crest Park was renovated to synthetic turf infields that have resulted in more play due to the reduction of cancellations due to rain-outs. The Island Crest south ballfield will receive synthetic turf in 2017 along with new ballfield lights. Fees for the synthetic turf fields at South Mercer and Island Crest Park will be monitored and adjusted in order to recover the cost of field replacement at the end of its useful life (estimated at 10-11 years).

Budget Policies

Community Center Operations

The Mercer Island Community and Event Center (MICEC) celebrated its ten-year anniversary in 2015. It continues to be an active facility with many recreation and event activities, as well as local and regional rentals.

The MICEC is a division of the Parks & Recreation Department will have a combined revenue goal, plus it will strive to attain a balance between recreational programs offered at the MICEC and all private rental groups.

As general operating costs continue to rise each year, as well as increasing internal and external facility usage demands, the primary challenges the community center faces is four-fold: 1) offering adequate space for city recreational programs, 2) maintaining and repairing the facility to acceptable standards, 3) offering the necessary levels of service to room rental customer, while 4) balancing the mission of the City and department to ensure access to and affordability of the MICEC to residents and community groups.

In addition to inflationary elements, the competitive wages offered to entry level positions by area community centers hampers the MICEC's ability to compete for casual labor resources and is addressed in this budget. It is a priority to attract highly qualified employees which is consistent with its understanding of the community's expectations for cleanliness and overall service while complying with City business and policy requirements.

The above factors will place more reliance on private rental revenue and other facility fees to off-set increased operating costs, which will require rates to be increased across the board. Facility rental rates will continue to be evaluated by category and adjusted as needed. It is important to note that rates have been increased several times since the new facility has been opened with 2013-2014 revenue more than doubling since 2008. This increase in revenue is due to a combination of increased overall business and increased rental rates. Each time rental rates are increased, there is a risk of losing overall rental revenue, which would adversely affect the operations of the MICEC due to the MICEC's heavy reliance on this revenue source. This is something staff will need to monitor closely. It should also be noted that increases in community service rates may be especially difficult on this category.

Cost Recovery

The Parks and Recreation Department collects a variety of fees and charges for its services to reduce its reliance on the General Fund. The full recreation, parks, administration, open-space, ballfield and community center user fee cost recovery was 50%, a level consistent over the past 7 biennia.

In order to keep up with comparable programs, activity and rental fees in the area we study select recreation fees and community center rates to learn the current fees charged for an equal level of service. The comparison helps to reflect the "market" for these fees and assists in evaluating the reasonableness of the current Mercer Island fees. The comparison also serves as a benchmark for how cost effectively the city provides its services. In the past Issaquah, Kirkland, Bellevue and Renton were analyzed and the findings include:

- 1) Average fees from the four cities tend to be lower than the charges set by Mercer Island.
- 2) Kirkland and Bellevue fees are most comparable to those charged by Mercer Island.

The Fee Study confirmed the Department has been recovering costs consistent with past management and budget policies, namely that cost recovery levels for:

- Adults shall be greater than youth and seniors.
- Youth programs shall be greater than senior programs.
- Adult sports leagues shall be greater than youth sports leagues.

Due to budgetary restrictions at the MICEC, the recreation programs and activities will be again including additional fees (\$55,000/year) within program registration to begin covering some of the direct costs associated with housing programs at the MICEC. These fee increases will begin low and be assessed throughout the year. In 2016, the rental rates for corporate rental groups were increased.

Budget Policies for 2017-2018

Addressing Council initiatives, enhancing revenues and meeting public service demands will be accomplished through the following:

- Continue to provide basic service levels for existing programs and develop appropriate charges and cost recovery goals for enhanced levels of service.
- Cost recovery levels for adults shall be greater than youth and seniors, and youth programs shall recover more than senior programs. Adult sports leagues shall recover a higher level of costs than youth sports leagues.
- The overall Parks & Recreation Department budget, will be subject to a total cost recovery policy of 50-55% through recreation fees, rental fees, and other dedicated revenues.
- An appropriate balance between recreation and rental usage will be sought for overall MICEC usage.
- Continue to refine the existing MICEC room rental pricing for residents and non-residents, Island based community groups, off-island community groups, and corporate clients.
- Establish cost recovery on facility usage at MICEC for recreation and city programs housed at the facility.
- Maintain consistent MICEC staff coverage (2 to 3 customer service staff per shift) for all established operating hours, as well as adequate back office staffing levels to safely and efficiently manage the MICEC's overall business and operational needs.
- Continue cost recovery fees on all synthetic turf sports fields in order to replace fields at the end of its useful life.

Budget Policies

2017-2018 Budget Impact

	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
Revenue				
Beautification Fund (I-90 & Holiday Lights)	\$ 605,481	\$ 600,447	\$ 614,950	\$ 632,623
Levy Lid Lift (LB and School related)	582,634	649,975	659,948	682,373
User Fees and Sponsorships	1,557,130	1,658,605	1,645,318	1,683,815
Total Revenue	\$ 2,745,245	\$ 2,909,027	\$ 2,920,216	\$ 2,998,811
Expenditures				
Administration	796,664	861,865	785,001	805,398
MI Community & Event Center	1,072,881	1,190,430	1,354,390	1,386,441
Parks Maintenance	2,165,739	2,278,526	2,398,180	2,468,733
Recreation & Special Programs	1,047,823	1,101,906	1,103,660	1,141,098
Total Expenditure	\$ 5,083,108	\$ 5,432,727	\$ 5,641,231	\$ 5,801,670
Department Cost Recovery	54%	54%	52%	52%

Trees, Trails, and Urban Forest Lands

Background

The citizens of Mercer Island have long regarded trees and the wooded setting of the Island an important aspect of our community. The City has encouraged preservation and protection of steep slopes, watercourses, ravines and other environmentally sensitive areas on private and public lands. These areas help define the sylvan character of the Island.

For open spaces (defined here as all publicly owned open space, including street rights-of-way) to remain healthy and viable, programs must be developed and funded that ensure trees and other vegetation are preserved, invasive plants removed, re-vegetation of plants encouraged and when necessary, trees removed and replaced. In 2001-2002, the City began an active approach toward open space management. In Pioneer Park, a coordinated capital program of forest management and user improvements was undertaken. In November 2003, the City Council adopted the Pioneer Park Forest Management Plan, detailing how the forest can best be managed over time to reach identifiable goals and outcomes. In October 2004, the City Council adopted the Open Space Vegetation Plan to address the issues of invasive plants and canopy condition on other public open space properties. This plan was first implemented as a capital program in the 2005-2006 biennial budget and has continued through the current 2015-2016 biennial budget. Staff completed an update to the Open Space Plan in 2014, which will be used as a guideline for forest management practices on public open space properties for the next 10 years.

Conflicts have arisen for decades over tree cutting, property development and preservation of trees and vegetation. As economic forces push the Island toward final build out and redevelopment of smaller homes, the pressure is on the City to effectively define policies and procedures to manage all aspects of natural resources on the Island. A tree ordinance adopted by the City Council in early 2002 provides clear direction for the preservation and management of trees on both private and public property in the future.

Comprehensive Planning

“Open space (trees and green spaces) preservation continues to be a primary activity for attaining the community's quality-of-life vision. The search for effective new tools and standards to protect and enhance the environment will be an ongoing focus of City leaders. The community, through its ongoing consideration of public and private projects, will continue to seek ways of enhancing the Island's quality of life through open space preservation, pedestrian trails and well-designed and functional public and semi-public facilities.”

Excerpts from the City Council Vision Statement.

As a mature community, Mercer Island has made substantial investments in public infrastructure over the last 30 years. Given proposed service levels and regulatory controls, additional investments may be required for open space acquisition, vegetation management and trail development.

Mercer Island has approximately 467 acres of City and State-owned parks and open space lands. This acreage comprises about 12% of the Island. Eight City parks are 10 acres or larger in size, of which two of these parks exceed 70 acres (Luther Burbank Park and Pioneer Park). On a per capita basis, Islanders enjoy an impressive 21 acres of publicly owned park and open space land per 1,000 people. This compares with neighboring jurisdictions as follows: Bellevue - 21.8 acres/1,000 pop.; Kent - 15.5 acres/1,000 pop.; Redmond, - 28.0 acres/1,000 pop.; Kirkland - 19.11 acres/1,000 pop. In addition to City park lands, approximately two-thirds of the Mercer Island School District grounds are available to

Budget Policies

Island residents for various recreational uses. And, an additional 40 acres of private open space tracts are available for residents of certain subdivisions on the Island. Nearly 20% of the Island is public right away (ROW) which supports a large number of trails and substantial amount of tree canopy.

The 2013 Mercer Island Parks and Recreation Plan identifies several goals and objectives that pertain to trees and open space. These include:

1) Provide a system of attractive, safe, and functional parks, and park facilities (partial list).

- Develop park planning tools and implement long term park/open space management and park master plans;
- Retain publicly owned parks and open spaces in perpetuity;
- Encourage private sector participation in preserving open space and providing facilities for recreational and community enjoyment;
- Pursue improvements to developed and undeveloped street ends where appropriate and where public demand supports new access.

2) Preserve natural and developed open space environments and trails for the benefit of all existing and future generations.

- Promptly investigate open space acquisition opportunities as they become available;
- Pursue fee simple purchase, transfer of development rights, conservation easements or other preservation and land use mechanisms that would:
 - Enable acquisition of properties where development would create severe hazards to public health/safety;
 - Provide a buffer between incompatible land uses
 - Protect ravines and watercourse corridors
 - Preserve lands adjacent to or visually accessible from arterials
 - Expand existing parks and open spaces or add to an activity node
 - Parcel size should be one acre or larger
- Open space land should offer identifiable benefits to the community that extend beyond adjacent private properties;
- Property should not present conspicuous liability risk unless appropriate mitigation can be pursued;
- Provide trails that are safe and attractive for pedestrians, bicycles and equestrians and
 - Complete and expand the pedestrian, equestrian and bicycle circulation system by acquiring rights-of-way as necessary and appropriate for trails;
 - Increase the visibility and accessibility of the bicycle, pedestrian and equestrian circulation system;
 - Develop trail systems within existing open space properties to provide maintenance and recreational access;
 - Enable continuous linkages between employment, transit, schools, parks, neighborhoods, churches/synagogues and community facilities;

3) Secure maintenance funding at a level necessary to sustain and enhance parks, trails and open space.

- Develop and update long term plans for maintaining parks, trails and open space;
- Seek City funding appropriations, including Capital Improvement funds, external grants and gifts to support the City's adopted Level of Service Standards for parks and to implement approved park and forest management plans;

4) Pursue state and federal grant funding for parks and open space improvements.

- Seek operations, maintenance and capital improvement grant funds to enhance parks, trails and open space areas.

Budget Polices for 2017-2018

- Continue to implement Option 2 in the Open Space Vegetation Plan which provides Level B service (maintain existing functional value) for vegetation management on 15 open space sites. This would also continue the funding implementation of projects contained in the Pioneer Park Forest Management Plan.
- Continue to fund a half-time Arborist position for 2017-2018 to support Development Services land use and regulatory functions. Also continue the Parks Natural Resources Manager and a three – quarter time Parks Natural Resources Specialist positions that support tree and urban forest management in parks and open spaces. Additionally, this also provides staff support to the Open Space Conservancy Trust.
- Fund arborist services and related work for trees in the public right of way through the Maintenance Department budget.
- Continue tree care and management in rights of way, parks, open spaces and the Town Center at 2015-2016 levels. Fund contractual services for removal of identified tree liabilities in parks and other open spaces.
- Continue maintaining Right-of-Way trails in conjunction with park trails to provide consistent levels of service city-wide.
- Utilize King County Proposition I Levy funding for planning and constructing new trail connections consistent with adopted planning instruments (master plans, bike/ped plan, etc.)
- Maintain master planned capital improvements to Pioneer Park, including trail grooming, trail repair, and park furniture maintenance.
- Continue tree care and vegetation improvement projects in Luther Burbank Park consistent with ongoing levy and CIP funding support.
- Utilize public education programs wherever possible to enable property owners to implement best environmental practices on private open space properties.

Budget Policies

2017-2018 Budget Impact

Expenditures	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
General Fund				
Arborist - plan review and permitting	\$ 61,138	\$ 64,451	\$ 66,822	\$ 67,947
Parks Natural Resources Coordinator	81,894	74,353	80,137	82,234
Trails Maintenance	63,282	58,452	61,817	62,696
Total General Fund	206,314	197,256	208,776	212,877
Street Fund				
Urban Forest Management (Right-of-way)	114,656	115,926	186,808	187,834
Capital Improvement Fund				
Parks Open Space and Vegetation Management	406,747	527,253	444,000	466,000
Total Expenditures	\$ 727,716	\$ 840,435	\$ 839,584	\$ 866,711

BUDGET POLICES

Public Safety

This section includes budget polices on the following:

- Criminal Justice Fund
- Fire Apparatus Replacement
- Fire Prevention
- Municipal Court
- Police and Fire Dispatching



Budget Policies

Criminal Justice Fund

Background

The Washington State Legislature authorized criminal justice funds to improve the criminal justice system. In 1990, the City created the Criminal Justice fund to account for this funding allocated to the Police Department. These funds must be used for criminal justice purposes only and cannot supplant General Fund expenses.

Criminal Justice fund revenues originally came from two different sources. The first was from the State's Motor Vehicle Excise Tax (MVET). A total of 2% of the market value of a vehicle was collected by the state. Of the total collected, the cities received 8.83%, allocated on a per capita basis. However, with the passage of Initiative 695 in 1999, the Criminal Justice fund no longer received monies from this source. The Criminal Justice Fund now relies mainly on the second source of funding which comes from a percentage of the City's sales tax (1/10th of 1%). This sales tax revenue was approved by the voters in King County in 1992. Mercer Island has historically received approximately \$500,000 per year from this sales tax percentage, except during the economic recession when sales tax revenues were lower than in previous years.

The Criminal Justice fund continues to sustain some very important programs within the Police Department. The fund will continue to support the "Hire Ahead" program, which provides funding for two Patrol Officers. It will support the School Resource Officer who works very closely with the School District, Youth and Family Services, and the Juvenile Court system. It will also fund the Police Support Officer program that addresses parking enforcement, leash law enforcement / education, and prisoner transportation. The fund continues to sustain the Police Department's Bike Patrol Team, Special Operations Team, our training program, and capital equipment purchases.

Budget Policies for 2017-2018

- Continually monitor Criminal Justice expenditures and revenues ensure that the fund maintains a positive monetary balance.
- Continue to fund two Hire Ahead Patrol officers who help mitigate periodic staffing shortages and overtime.
- Continue to support the School Resource Officer program in partnership with the Mercer Island School District.
- Continue to support the Police Support Officer program.
- Continue to support the portion of the regional radio system costs which cannot be charged to the levy, such as radio maintenance and replacement costs.
- Continue to support funding for police training and equipment.

Budget Policies

2017-2018 Budget Impact

Description	2015	2016	2017	2018	Percent Change	
	Actual	Forecast	Budget	Budget	16-17	17-18
RESOURCES						
Budgeted						
Beginning Fund Balance	\$ -	\$ 70,635	\$ -	\$ -	-100.0%	N/A
Washington State Sales Tax	599,679	630,000	662,000	695,000	5.1%	5.0%
State Shared Revenues	32,725	34,330	35,880	36,960	4.5%	3.0%
Intergovernmental - School Dist	23,449	24,351	24,845	25,565	2.0%	2.9%
Grants & Public Safety Services	4,812	2,400	4,000	4,000	66.7%	0.0%
Total Budgeted Resources	\$ 660,665	\$ 761,716	\$ 726,725	\$ 761,525	-4.6%	4.8%
Not Budgeted						
Beginning Fund Balance (Reserved)	810,210	906,557	997,342	1,124,626	10.0%	12.8%
TOTAL RESOURCES	\$1,470,875	\$1,668,273	\$1,724,067	\$1,886,151	3.3%	9.4%
USES						
Budgeted						
Administration	\$ 19,097	\$ 19,500	\$ 24,000	\$ 24,000	23.1%	0.0%
Police Support Officer	100,226	104,742	106,102	109,189	1.3%	2.9%
Regional Radio & Replacements	34,039	35,886	35,886	35,886	0.0%	0.0%
Special Operations/Bike Patrol	12,770	16,400	18,700	18,700	14.0%	0.0%
Hire Ahead Positions	158,343	227,725	214,901	230,919	-5.6%	7.5%
School Resource Officer	141,297	142,043	145,852	150,028	2.7%	2.9%
Police Training	12,547	44,000	44,000	44,000	0.0%	0.0%
Domestic Violence	10,000	10,000	10,000	10,000	0.0%	0.0%
Roof Extension Project	5,365	70,635	-	-	-100.0%	N/A
Total Budgeted Expenditures	\$ 493,683	\$ 670,931	\$ 599,441	\$ 622,722	-10.7%	3.9%
Not Budgeted						
Ending Fund Balance	977,192	997,342	1,124,626	1,263,429	12.8%	12.3%
TOTAL USES	\$1,470,875	\$1,668,273	\$1,724,067	\$1,886,151	3.3%	9.4%

Fire Apparatus Replacement

Background

In 2007, the City Council authorized the implementation of a fire apparatus replacement plan which included some upfront capital replacement funding and an ongoing 1.65% dedicated property tax levy (1.0% optional plus 0.65% banked capacity), supplemented by interest earnings as needed to cover the difference between the required annual apparatus sinking fund charge and the property tax levy. Beginning in 2014, the annual excess proceeds from the Fire Station and Fire Rescue Truck levy lid lift (i.e. greater than the annual debt service on the 2013 LTGO bonds) were dedicated to the fire apparatus replacement sinking fund, which will continue through 2021.

Since 2007, a comprehensive replacement plan has been implemented in order to keep the Mercer Island Fire Department (MIFD) fleet at the highest response capability level. During the 2015-2016 budget cycle, the following projects were accomplished or initiated:

- In 2015, the MIFD Rescue Truck and Trailer were delivered and put into service.
- In 2015-2016, a new MIDI Pumper was purchased and will be placed into service in the third quarter of 2016.
- In 2011, the Fire Department entered into a Shared Emergency Reserve Apparatus Program with Eastside Fire & Rescue. The intent of this agreement was to determine the feasibility of reducing the MIFD Fire Engine Fleet from four engines to three. It has been determined that MIFD needs to maintain a four engine fleet due to the number of times it is necessary to place a fourth engine in service in order to maintain consistent response levels. In 2016, through mutual agreement with Eastside Fire & Rescue, this agreement was terminated.

Budget Policies for 2017-2018

- Continue apparatus fleet analysis to ensure fleet response capabilities; look for opportunities of sustainability, and standardize fire apparatus specifications and design to reduce purchase costs.
- Continue to monitor technology development relative to sustainability and adaptability of the MIFD Fire Fleet.
- Design and purchase a new Maxi Pumper in 2018 through a 9 year lease purchase agreement, with the first lease payment beginning in 2019 and delivery scheduled for 2019.

Budget Policies

2017-2018 Budget Impact

Description	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
Revenues:				
Property Tax	\$201,772	\$204,017	\$201,477	\$204,253
Capital Lease Proceeds	341,295	0	0	745,000
Total Revenues	\$543,067	\$204,017	\$201,477	\$949,253
Expenditures:				
Capital Purchase	\$341,295	\$0	\$0	\$745,000
Capital Lease (Principal & Interest)	235,545	245,281	241,506	113,483
Total Expenditures	\$576,840	\$245,281	\$241,506	\$858,483

Community Risk Reduction

Background

The Mercer Island Fire Department has the legal responsibility to provide fire, medical, prevention, and educational services to the Mercer Island community, as defined by the Mercer Island City Council through City Ordinance.

Mercer Island delivers Fire Prevention, Education & Code Enforcement services as part of a tiered strategy to reduce or prevent loss of life, injury, or property loss, through the services of the Fire Department generally, and the management of the Fire Marshal specifically.

In the 2011-2012 Budget, the Fire Marshal position was eliminated. The Development Services Group (DSG) and the Fire Department divided and re-assigned the responsibilities of the Fire Marshal position between the two Departments through a Business Re-Engineering Process. In 2015 the Fire Marshal (FM) position was re-instated, and an Assistant Fire Marshal (ASM) is utilized as necessary through overtime funding, dependent upon need.

Budget Policies for 2017-2018

- Develop more efficient processes for plans review to enhance customer service and decrease turnaround times.
- Identify opportunities for operational permit fees.
- Continued education of the ASM to help distribute the workload of the FM.
- Evaluate staffing needs in the future.
- Continued evaluation of permit fees in order to cover staffing costs.

2017-2018 Budget Impact

Description	2015 Actual	2016 Estimate	2017 Budget	2018 Budget
Revenues				
Permit Fees	\$ 143,325	\$ 197,200	\$ 191,500	\$ 181,500
Total Revenue	\$ 143,325	\$ 197,200	\$ 191,500	\$ 181,500
Expenditures				
Salary and Benefits	\$ 193,899	\$ 261,856	\$ 268,634	\$ 269,026
Fire investigation supplies	3,706	8,106	20,250	20,250
Other operating costs	1,217	7,425	9,025	9,725
Total Expenditure	\$ 198,821	\$ 277,387	\$ 297,909	\$ 299,001

Budget Policies

Municipal Court

Pursuant to state law, Mercer Island is required to provide court services by (1) forming its own municipal court; (2) forming a municipal department within the King County court system; or (3) contracting with King County for delivery of court services. After considering a proposed new King County court contract, the City Council directed staff to proceed with formation of a Mercer Island Municipal Court to be operational on January 1, 2005. The City Council also approved an interlocal agreement with Newcastle for the delivery of court services commencing January 1, 2005.

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.

In 2008, the Court’s caseload had increased significantly to the point where staff was unable to take adequate breaks during the work day, to attend needed training, and to stay current in submitting unpaid tickets and probation fees to collections. This conclusion was independently confirmed by Prothman and Company, which compared Mercer Island to three other jurisdictions (Bothell, Des Moines, and Issaquah) in terms of 2007 new case filings and authorized FTE’s, as noted in the table below.

City	Traffic Infraction	Non-Traffic Infraction	Parking	DUI	Traffic Criminal	Non-Traffic Criminal	Total Cases	FTE's	Cases Per FTE
Mercer Island	2,592	166	709	48	185	82	3,782		
Newcastle	448	0	10	8	81	26	573		
Total	3,040	166	719	56	266	108	4,355	2.0	2,177.5
Bothell	3,227	41	300	145	657	418	4,788	3.5	1,368.0
Des Moines	3,293	166	377	44	447	425	4,752	4.0	1,188.0
Issaquah	2,730	7	414	89	358	374	3,972	4.5	882.7

As a result, the Council approved the addition of a temporary, full-time Court Clerk in September 2008, which was converted to a regular, full-time position beginning in 2009. Excluding the Judge, total Court staffing was 3.0 FTEs in 2009-2010.

With the reduction in caseload in 2009-2010 relative to 2008, it was determined that the Court Administrator position could be reduced from full-time to half-time beginning in 2011, reducing total Court staffing to 2.50 FTEs, with no impact on necessary reporting and accounting functions and no visible change to the public in the level of service. This worked, albeit imperfectly, until the caseload jumped up significantly in 2014 and 2015, exceeding the 2008 level. Accordingly, the Court Administrator was increased to a 0.75 FTE beginning in 2015, increasing total Court staffing to 2.75 FTEs. In addition, the 0.25 FTE increase was needed to address staff coverage challenges (when a Court Clerk is out sick or on vacation) and staff training needs. In terms of total cases per FTE, this level of staffing equates to 1,712 cases per FTE based on 2015 case filings, which is significantly higher than the three courts noted above.

Below are the total actual case filings for Mercer Island and Newcastle for 2008-2015.

Budget Policies

Year	Traffic Infraction	Non-Traffic Infraction	Parking	DUI	Traffic Criminal	Non-Traffic Criminal	Total Cases
2008	3,134	110	542	64	324	168	4,342
2009	2,691	161	363	49	360	171	3,795
2010	2,798	115	268	58	313	127	3,679
2011	2,693	69	454	68	254	180	3,718
2012	2,105	71	828	44	190	134	3,372
2013	1,871	94	624	45	174	107	2,915
2014	3,698	76	596	32	193	99	4,694
2015	3,725	43	567	27	235	110	4,707

Budget Policies for 2017-2018

- Continue to provide municipal court services to the City of Newcastle via the current interlocal agreement.
- Maintain timely processing of cases while continuing to provide equal, fair and timely resolution with a high emphasis on efficiency and effectiveness.

2017-2018 Budget Impact

Description	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
Fines & Forfeiture Revenue	\$ 433,172	\$ 415,000	\$ 415,000	\$ 415,000
Total Court Operating Costs	(379,608)	(429,810)	(479,586)	(494,611)
Net General Fund Impact - Revenue (Cost)	\$ 53,564	\$ (14,810)	\$ (64,586)	\$ (79,611)

Police and Fire Dispatching

Background

Dispatch Services: From 1960 to 2004 Mercer Island operated its own Police / Fire dispatch center. Beginning in 2004 through 2009 Mercer Island received Police and Fire dispatching services from the cities of Kirkland and Bellevue respectively. In 2009, the new North East King County Regional Public Safety Communication Agency (NORCOM) became our service provider for both Police and Fire dispatch services. Costs are shared by the stakeholders based on call volume, with Mercer Island's share being 5.9% of the total costs.

NORCOM provides dispatching services for five Police Departments and 14 Fire Departments. They answer approximately 171,000 calls for service each year (110,000 police calls and 61,000 fire / EMS calls). Mercer Island is responsible for approximately 13,000 of the police calls, and 2,200 of the Fire / EMS calls each year.

Radio Services: The Eastside Public Safety Communications Agency (EPSCA) was created in 1992 to develop, own, operate and manage an Eastside radio communications system for 800 MHz radio communications between governmental agencies (police, fire, public works, etc). The EPSCA Principal agencies are the cities of Bellevue, Redmond, Kirkland, Mercer Island, and Issaquah. Each Principal agency has a representative on the EPSCA Executive Board.

Funding for the current 800 MHz radio system was approved by King County voters in September 1992 with the passage of a three-year property tax levy. The system will reach the end of its life cycle in 2018. To address this a new levy for a replacement system was approved by King County voters in April 2015. The Puget Sound Emergency Radio Network (PSERN) is a county wide system that will merge the four owners of the current system—EPSCA, King County, the City of Seattle and Valley Communications Center. The Chair of the EPSCA Executive Board serves on the PSERN Governance Board, and there are also representatives from the other three system owners. The four system owners are currently working with the PSERN project team to develop and implement the new system. Motorola Solutions Inc. was selected as the system/network vendor. The new system is currently scheduled to be completed and in service by September 2020.

Budget Policies for 2017-2018

- Continue to work with NORCOM to ensure our citizens and public safety employees are receiving a high level of service.
- Work with Records personnel to ensure they provide the appropriate level of service to our citizens.
- Ensure that Mobile Computer systems in emergency vehicles and field reporting systems are dependable, well maintained and functional.
- Continue our active participation in NORCOM committees, with a particular focus on ensuring efficiencies are maximized.
- Continue our involvement with EPSCA / King County in the planning of a new radio system.

Budget Policies

2017-2018 Budget Impact

Expenditures	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
NORCOM Police Dispatch Operating	\$417,896	\$541,090	\$624,693	\$669,507
NORCOM Fire Dispatch Operating	155,750	176,256	156,072	167,286
Total Expenditures	\$573,646	\$717,346	\$780,765	\$836,793

BUDGET POLICES

Youth and Family Services

This section includes budget polices on the following:

- Youth and Family Services Financing



Budget Policies

Youth and Family Services Financing

Background

Youth and Family Services (YFS) was created in 1973 as a private and public partnership. Public and private sources of revenue have always been integral to the funding base for the department. To compensate for the gradual reduction from the City's General Fund subsidy, and the 2009 funding cut from the Mercer Island School District, the Department has pursued other endeavors to finance the Department services. These include:

- Donations from community organizations and individuals
- Maximizing stewardship of donations received by the Thrift Shop
- Grants
- MIYFS Foundation fundraising contributions
- Client user fees
- Interest earnings from the Youth Services Endowment Fund
- Interlocal Agreement for Counseling Services with Mercer Island School District

This policy is intended to provide additional historical and current details regarding Department funding sources and provide background for the proposed 2017-2018 Budget changes.

In the 2017-2018 biennium a contract staff position will be funded only through September of 2017 to coordinate the Communities that Care Coalition focusing specifically on reducing underage drinking and marijuana use as well as the prevention of youth risk behaviors. The Mercer Island Communities that Care Coalition efforts funded through the Federal Drug Free Communities grant will end its second five-year funding cycle on September 30, 2017.

Youth and Family Services Fund

Youth and Family Service revenues and expenditures are accounted for in a Special Revenue Fund called the "Youth & Family Services Fund." The fund was created from cash balances of past donations held in Trust Funds providing the beginning cash balance. All revenues, including program fees, grants, donations, thrift shop sales, general fund support, MIYFS Foundation support, and all YFS program expenditures are now accounted for within the same fund. Any year-end surplus generated is retained in the fund for future appropriation in support of ongoing YFS programs.

Youth Services Permanent Endowment Fund

In 1986, upon the recommendation of the Youth and Family Services staff and Advisory Board, the City Council adopted Ordinance A-45 defining the "Youth Services Program Enhancement Trust Fund" and the "Youth Services Endowment Fund". The ordinance formally established procedures and guidelines for the expenditure of funds donated to Youth and Family Services.

Direct donations to these funds are tax deductible under the provisions of Section 170 of the IRS Code, specifically due to meeting the definition of sub-section 115(a) that describes governmental subdivisions. The YFS Permanent Endowment Fund (061) is comprised of contributions donated primarily by individuals. Ordinance A-45 established that the principal remains invested, and only the income earned from the investment of funds is available for expenditure. Interest from the Permanent Endowment Funds is transferred annually to the YFS Fund to support ongoing programs. For the 2017-2018 biennium, \$500 is budgeted in each year.

Budget Policies

Thrift Shop Revenue

The Mercer Island Thrift Shop (TS) began as a yard sale in 1975. In its first year of operation the community volunteers raised \$3,413 in revenues. Sales grew through the years: exceeding \$500,000 for the first time in 2004, and growing to the \$1.0 million mark for the first time in 2011. During 2014, Thrift Shop did not reach its projected level of revenues of \$1.4 million. Revenues plateaued during the 2013-14 biennium and began to rise again in the last quarter of 2015. Many factors contribute to the fluctuations to Thrift Shop revenues. Most of which are not controlled by the City or the Thrift Shop.

Factors include:

- Unpredictable work study funding changes: fewer available students, decrease in the average work study funding allocations per student.
- Reduction in the number of volunteer hours per volunteer.
- Increase in the Seattle minimum wage.

The Thrift Shop relies upon an enormous commitment of hours from volunteers. The volunteers' commitment stems from the mission focus of raising revenues to pay for social service programs operated by YFS. The volunteer hours of community members rose in 2015 and has continued into 2016. Along with this increase the store is also losing the seasoned volunteer staff members who donated upwards of 20 hour per week. This trend of more volunteers who provide fewer hours requires Thrift Shop Coordinators to spend more time recruiting, orienting, training and retaining volunteers. And though the Thrift Shop has been experiencing an upswing in the amount of volunteer hours, maintenance of this group requires more staff time.

The Thrift Shop staffing pattern reflects a consistent use of contract and casual labor hours of skilled staff to coordinate and complement the work of volunteers. In the 2015-2016 biennium the Thrift Shop again consolidated casual labor funds to make up for the loss of Work Study Students. Casual labor monies funded two additional part-time positions of 29.5 hours/week. With these two stable positions replacing the work of several work study student of fewer weekly hours, store coordinators have been able to focus on the business and organizational aspects of running the store. These staffing changes have resulted in an increase of both revenues and numbers of volunteers and volunteer hours. Currently, Thrift Shop revenues are up 13.8% over 2015 and are projected to hit \$1,448,000 in 2016, which is 2.4% above what is budgeted.

The proposed 2017-2018 budget for the Thrift Shop revenue supports the following priorities of the Youth and Family Services Department:

- Reimbursement of Thrift Shop expenses - defined as direct costs that the City would not be incurring if the Thrift Shop were not in existence.
- Thrift Shop building facility maintenance, operations, and capital improvements.
- Support of ongoing YFS programs. (This has been particularly important over the past seven years since the reduction in funds from the MI School District for school based mental health services.)

MIYFS Foundation

The MIYFS Foundation was created in 1989 to support and expand the human services offered by the Department. It is an independent, private, non-profit legal entity separate from the City of Mercer Island with its own Board of Directors. The Foundation is eligible for tax deductible donations, under the provisions of Section 170 of the IRS Code, specifically due to meeting the definition of Section 501(c)(3),

defining private non-profit organizations. It was originally created in order to be eligible for workplace giving programs and other corporate and foundation funds that require a 501(c)(3) tax-exempt status for eligibility. The nature of the relationship between the Foundation and MIYFS is similar to that of a schools foundation and a school district.

The MIYFS Foundation 501(c)(3) raises revenues through a variety of fund raising activities conducted annually by the 15-member board. The Foundation continues to increase the variety of fundraising activities conducted on behalf of the department. Fundraising endeavors remains generally consistent and the revenues have increased significantly over the past two years. The current primary fundraisers are:

- All Island fund drive (conducted in early winter to coincide with yearend giving requests).
- School fund drive - be conducted in September in an effort to reduce donor fatigue and competition from the MI Schools Foundation fund drive in the April – June months.
- **MIYFS Foundation** (formerly the 'Giving From the Heart') breakfast, the Foundation's signature event, held the second Wednesday of February.
- **GFTH Business Program**, an organized array of businesses that donate 20% of their profits on the day of the GFTH Breakfast.
- Various other smaller community based fundraising endeavors.
- Developing focus on Major Donors

The Foundation has three Endowments that receive donations: Senior Outreach, General Services and Youth Development which supports the work of VOICE and SVP community service programs. Foundation Board members manage all grant and fund drive solicitations for the MIYFS Foundation and serve as ambassadors for the GFTH breakfast and shopping.

On-going funding: Each year the Foundation commits to raising a specified amount of funds for annual YFS general operating expenses. For 2015 and 2016 the Foundation met its pledge to provide \$155,000 annually as well as providing two additional gifts: \$14,000 to purchase a box truck and \$19,900 to enhance TS staffing. The Foundation's ability to raise funds has steadily increased over the past two to three years. In the coming biennium the Foundation commitment will be \$200,000 per year. This increase is a direct result of Board commitment to current services and prevention efforts to address the root causes of youth risk behaviors. A focus of the Foundation continues to vary the fund drive months, types of asks and donor populations in order to expand community awareness and increase the amount and types of donations.

Program Donations

The YFS Fund also receives donations in support of ongoing programs. Examples include donations for emergency assistance, scholarships, and Voice program donations. General donations to YFS programs are directed to the MIYFS Foundation. Careful accounting with sub-accounts assures that funds will be spent according to the donor's wishes. Funds are used for general operational costs of existing YFS priority programs; program enhancements, equipment purchases, and miscellaneous service related expenses.

Budget Policies for 2017-2018

- **Funding Basis**

Department positions are funded by a funding matrix that includes the City's General Fund and several other sources that include the Mercer Island School District, County, State and Federal

Budget Policies

grant contracts, private contributions, Thrift Shop revenues, and MIYFS Foundation support. There are no base positions or privately funded positions except in the case of contracts, grants, or specifically designated donations or bequests. Department positions are prioritized based on mission critical work. The YFS Department service configuration is determined by professional protocols for Human Service planning: best practice research, targeted community needs assessment, and client and professional input. The Department director presents to the City Council, through the budget approval process, and council presentations as needed, the mix of services that would best serve the children, youth, families, adults and seniors of the community.

- **Responsibility to Donors and Volunteers**

Contributions from donors are used to the maximum extent possible to provide human services for the people of Mercer Island according to the expressed wishes of the donors. Since the 1970's a unique partnership with community volunteers has been integral to the continuation of the Thrift Shops' revenue stream that allows the City to fund many YFS programs.

- **Funding Streams 2017-2018**

General Fund Contribution: The General Fund's annual contribution to the YFS Fund has changed over the years primarily due to the Great Recession's impact on General Fund revenues in 2010-2014 and Thrift Shop's sales, which were particularly strong through 2012 before plateauing in 2013-2015.

Following is a brief history of the annual contribution beginning in 2004:

- 2004-2009: \$465,000 annual contribution
- 2010: \$440,000 annual contribution (\$25,000 reduction due to Great Recession)
- 2011-2013: \$320,000 annual contribution (\$120,000 reduction due to Great Recession; mostly replaced by Thrift Shop sales growth)
- 2014: \$200,000 (\$120,000 reduction; used available fund balance to make up difference)
- 2015: \$400,000 (\$200,000 increase funded by "new construction" property tax and "banked capacity" property tax) + \$120,184 one-time distribution of 2014 General Fund surplus to address the projected YFS Fund deficit in 2016

The annual General Fund contribution for the 2017-2018 biennium will continue to be \$400,000. In addition, the YFS Fund will need \$192,831 of the 2016 General Fund surplus to address the projected YFS Fund deficit in 2017 (\$157,831) and to provide \$35,000 in working capital.

At this time, options to expand the Thrift Shop, which have been explored in the past, are off the table given the projected deficits in the General Fund and YFS Fund in 2017-2018.

Mercer Island School District: The Mercer Island School District provides an annual, fixed amount of \$60,000 in support of school-based mental health counseling services. This amount reflects a reduction from the pre-2009 formula in which the District paid approximately 42.5% of the cost for the school based counselors. All cost increases are borne by the City, not the School District. As a result, the percentage the MISD contributes for school based mental health counseling services decreases annually. The cost for these services is \$627,388 in 2017 and \$648,195 in 2018. The District's share of these costs equals 9.4% for the biennium.

King County Community Services Division: The KC Community Services Division has been the primary supporter of the Youth and Family Service Association agencies since its inception in

1973. From 2000 through the current year (2016) the Department has received approximately \$36,000 per year for general operating expenses. These funds have been designated to support a portion of the department's work in the schools. Over the past 10-12 years, King County has been re-evaluating the YFS designation of General Fund use for human services, informing the YFS organizations that the designated funding would eventually be phased out. Contrary to this past stance, King County recently informed YFS that for now and the foreseeable future the YFS organizations are scheduled to receive continued funding.

Diversion: No diversion funding is provided by King County for 2017-2018. The program is maintained by the Department as it reaches very vulnerable Island youth.

Drug Free Communities Grant (DFC): In April 2012, the YFS Department submitted a proposal for a second five year federal Drug Free Communities grant to continue the Communities That Care community mobilization endeavor. This community coalition works with all sectors of the community to reduce the level of underage drinking and drug use. The first five year federal grant from Drug Free Communities began in January 2008 and expired on August 31, 2012. The City was again awarded a five year federal Drug Free Communities grant that will continue to fund the work of the coalition through September 30, 2017. The focus of the current grant now includes the reduction or maintenance of current levels of youth substance abuse in the climate of legalized marijuana. The Department will continue to focus on prevention through clinical and community based services.

- **YFS Fund Balance**

For the past five biennia, fund balance was used to bridge the difference between revenues and expenditures. The draw down has been slower than projected due to better than projected Thrift Shop revenue growth and an effective effort to reduce expenditures. A \$157,831 deficit is projected in 2017 and a \$323,886 deficit is projected in 2018. As noted above, the 2017 deficit will be fully bridged using the 2016 General Fund surplus.

- **Funding shortfalls, addressing emergent needs and serving the community**

The Department's goal is to meet current and emerging human service needs on Mercer Island. To this end, the Department remains vigilant to exploring all feasible options to increase revenues and optimize public donations. The Department develops and maintains strong relationships with service groups, the faith community as well as other Island funding organizations. And when appropriate, the Department applies for public funding.

Efforts to increase revenues continue to focus primarily on the Thrift Shop and the MIYFS Foundation. In 2013, the Thrift shop revenues hit a plateau. This plateau was overcome in 2016 by making some staffing changes, which were noted previously and which increased operating costs. In addition, the Foundation has increased its number of donors, the average size of the donor gift, and its revenue commitment to the City for the next three biennia to \$200,000 per year beginning in 2017. The 2013 brand change for all visual, written and media communications was effective in executing an overall strategy to build stronger community awareness of and investment in the work of the Department. The Foundation and the Thrift Shop are seeing an increase in both volunteer and financial support.

Budget Policies

- **Next Steps – Determining a dedicated, sustainable and adequate funding source**

In the 2017-2018 biennium, the YFS Fund faces significant deficits. The 2017 deficit will be addressed using 2016 General Fund surplus. To maintain current services and to fully address the 2018 and future deficits, a new, ongoing funding source is needed given that YFS staff costs are projected to increase 4% per year on average and contracts and partnerships cannot increase their funding at a similar level.

2017-2018 Budget Impact

Description	2015	2016	2017	2018	Percent Change	
	Actual	Forecast	Budget	Budget	16-17	17-18
RESOURCES						
Budgeted						
Beginning Fund Balance	\$ -	\$ 32,938	\$ 72,804	\$ -	121.0%	-100.0%
KC Grant Revenue	49,642	36,000	38,000	38,000	5.6%	0.0%
School Counselor Program Support	60,000	60,000	60,000	60,000	0.0%	0.0%
Thrift Shop	1,340,561	1,413,651	1,498,334	1,573,250	6.0%	5.0%
Program Fees & Donations	204,894	190,500	190,500	190,500	0.0%	0.0%
CTC Grant Funding	128,108	125,000	93,750	-	-25.0%	-100.0%
MIYFS Foundation Support	155,000	174,445	202,000	202,000	15.8%	0.0%
Interfund Transfer - YFS Endowment	412	500	500	500	0.0%	0.0%
Interfund Transfer - General Fund	520,184	400,000	592,831	400,000	48.2%	-32.5%
Total Budgeted Resources	\$2,458,801	\$2,433,034	\$2,748,719	\$2,464,250	13.0%	-10.3%
Not Budgeted						
Beginning Fund Balance (Reserved)	235,418	249,560	35,000	35,000	-86.0%	0.0%
TOTAL RESOURCES	\$2,694,219	\$2,682,594	\$2,783,719	\$2,499,250	3.8%	-10.2%
USES						
Budgeted						
YFS Administration	\$ 591,501	\$ 657,474	\$ 643,640	\$ 680,618	-2.1%	5.7%
Thrift Shop	577,579	582,241	695,337	715,374	19.4%	2.9%
School Counselor Program	501,108	561,855	627,388	648,195	11.7%	3.3%
Senior Outreach	93,636	97,839	101,417	104,856	3.7%	3.4%
VOICE Program	61,814	68,966	103,366	107,194	49.9%	3.7%
Jobline	47,978	48,077	50,289	51,945	4.6%	3.3%
Family Counseling & Assistance	327,620	345,709	355,097	364,865	2.7%	2.8%
Communities That Care	202,270	166,629	141,185	70,089	-15.3%	-50.4%
Interfund Transfers - CIP	8,213	46,000	31,000	45,000	-32.6%	45.2%
Total Budgeted Expenditures	\$2,411,721	\$2,574,790	\$2,748,719	\$2,788,136	6.8%	1.4%
Not Budgeted						
Expenditure Cuts/New Revenue	-	-	-	(343,886)	N/A	N/A
Ending Fund Balance	282,498	107,804	35,000	55,000	-67.5%	57.1%
TOTAL USES	\$2,694,219	\$2,682,594	\$2,783,719	\$2,499,250	3.8%	-10.2%