



Section C

Revenue Sources



**2025-2026
PRELIMINARY BUDGET**

REVENUE SOURCES

For the 2025-2026 biennium, the City’s total budgeted resources amount to \$222.3 million, which consists of \$108.4 million in 2025 and \$113.8 million in 2026. This section of the budget focuses on the City’s major revenue sources (see Figure 1), the internal and external factors that affect revenue estimates, and the 2025-2026 budgetary impacts.

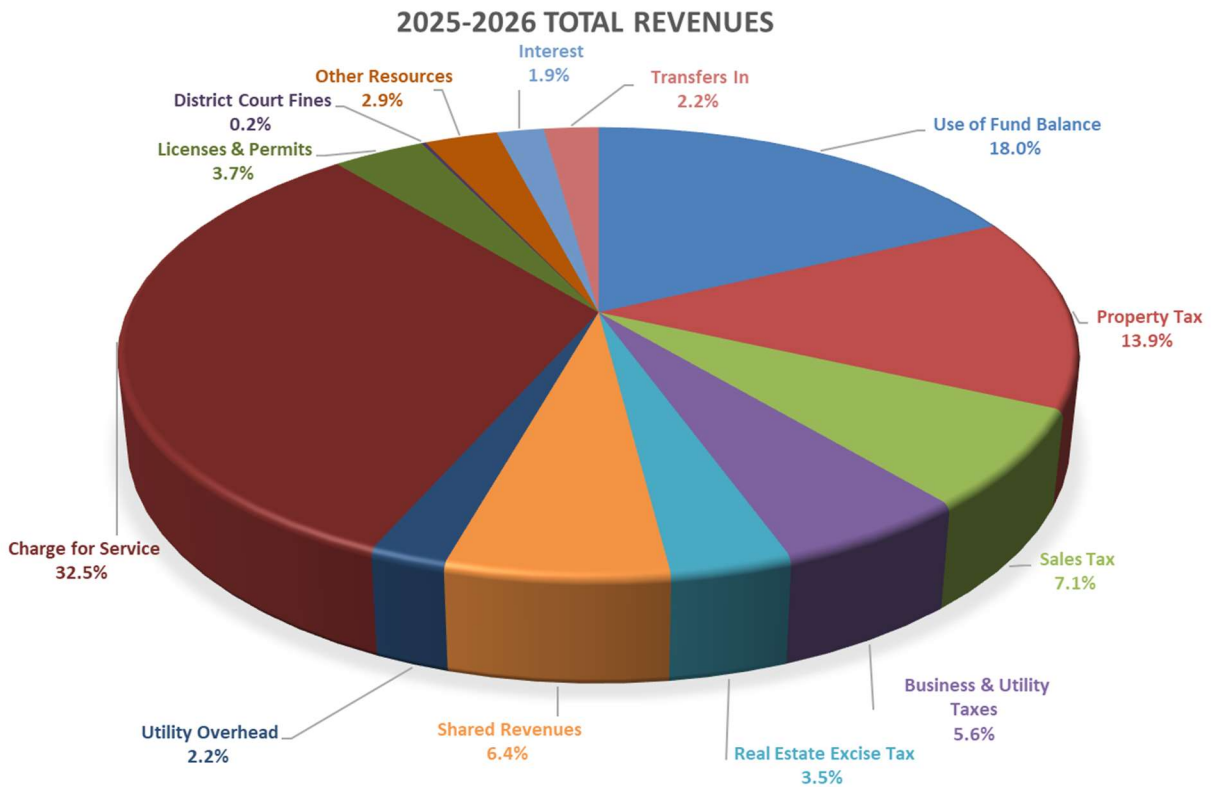


Figure 1

Property Tax

Property tax is the City’s largest single revenue source, accounting for 13.9% of total budgeted resources in 2025-2026. In the General Fund, which encompasses most of the City’s general government services, property tax comprises 37.1% of total budgeted resources in 2025-2026.

Types of Property Tax

There are two types of property tax collected by the City: *regular levy* and *voter approved levy*. The *regular levy* portion may be used for any purpose the City deems necessary. On Mercer Island, as in most cities, the *regular levy* primarily supports the General Fund.

A *voter approved levy* represents a property tax increase over and above the *regular levy* and is typically authorized for a specific purpose. There are two types of *voter-approved levies*: *excess levy* and *levy lid lift*. An *excess levy* is dedicated to paying the principal and interest on debt issued for capital projects or major equipment purchases. The City does not have any excess levies. A *levy lid lift* is usually dedicated to funding specific general government operations and/or capital improvements.

Revenue Sources

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

The 2022 Parks levy consists of the same components of the prior levy while also adding capital funding for playground replacement projects and forest management plan projects. The total amount for 2025 and 2026 is \$1,662,082 and \$1,678,702, respectively.

Establishing the Property Tax Rate

Each November, as required by Washington State law, the City Council sets the property tax levy for the coming year. The City’s regular levy and levy lid lifts are annually limited to a 1% increase or the rate of inflation as measured by the Implicit Price Deflator (IPD), whichever is less. The IPD is not the same as the Consumer Price Index for Urban Wage and Clerical Workers (CPI-W). Also included with the annual increase is an allowance for new construction, which includes the property tax revenue generated by newly constructed and improved residential and commercial properties.

Determining the Property Tax Rate

The property tax rate is determined by dividing the total annual levy amount by the assessed valuation per \$1,000. Mercer Island’s levy rate fluctuates based on changes in assessed valuation, taking the 1% optional increase, and voter approved levies. The City’s levy rate in 2014-2024 is provided in Figure 2.

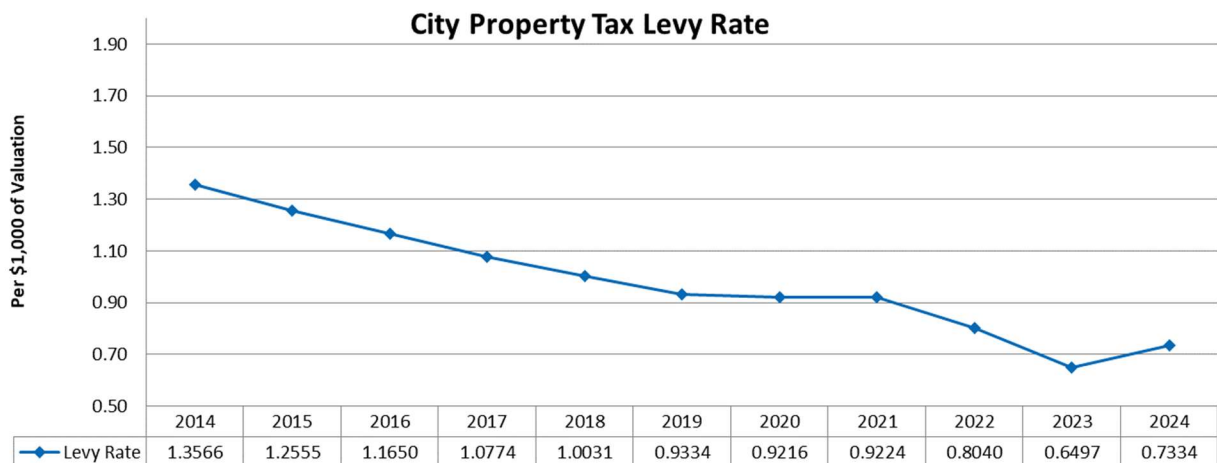


Figure 2

For the owner of a home with a \$1,912,000 assessed value – which is the median assessed value on Mercer Island for the 2024 tax year – the 2024 levy rate (per \$1,000 assessed valuation), the 2024 levy amount, and the percentage breakdown by taxing jurisdiction are presented in Figure 3. The homeowner’s total property taxes in 2024 amount to \$13,154.08.

Revenue Sources

| Property Taxes for a Median Assessed Value Household by Taxing Jurisdiction | 2024 Levy Rate | 2024 Levy Amount | % of Total 2024 Levy |
|---|----------------|------------------|----------------------|
| State School Fund | 2.5175 | 4,813 | 37% |
| School District | 1.4352 | 2,744 | 21% |
| King County | 1.3379 | 2,558 | 19% |
| City of Mercer Island | 0.7334 | 1,402 | 11% |
| Library | 0.2888 | 552 | 4% |
| EMS | 0.2268 | 434 | 3% |
| Sound Transit | 0.1648 | 315 | 2% |
| Port | 0.1047 | 200 | 2% |
| Flood Zone | 0.0707 | 135 | 1% |
| Ferry District | - | - | 0% |
| Total | 6.8798 | \$ 13,154 | |

Figure 3

A total of ten jurisdictions have taxing authority on Mercer Island, including the City. The largest portion of the levy relates to schools, with 37% going to the State School Fund and 21% to the Mercer Island School District. King County and the City are the next largest taxing jurisdictions. The 12% remaining total levy relates to the King County Library District, the King County Emergency Medical Services (EMS) Levy, the Port of Seattle, the King County Flood Zone District, and the King County Ferry District.

Figure 4 depicts the total property tax revenues the City received from 2014 through 2023, the projected amount for 2024, along with the 2025 and 2026 budget amounts.

Property Tax 2014-2026 (\$ in millions)

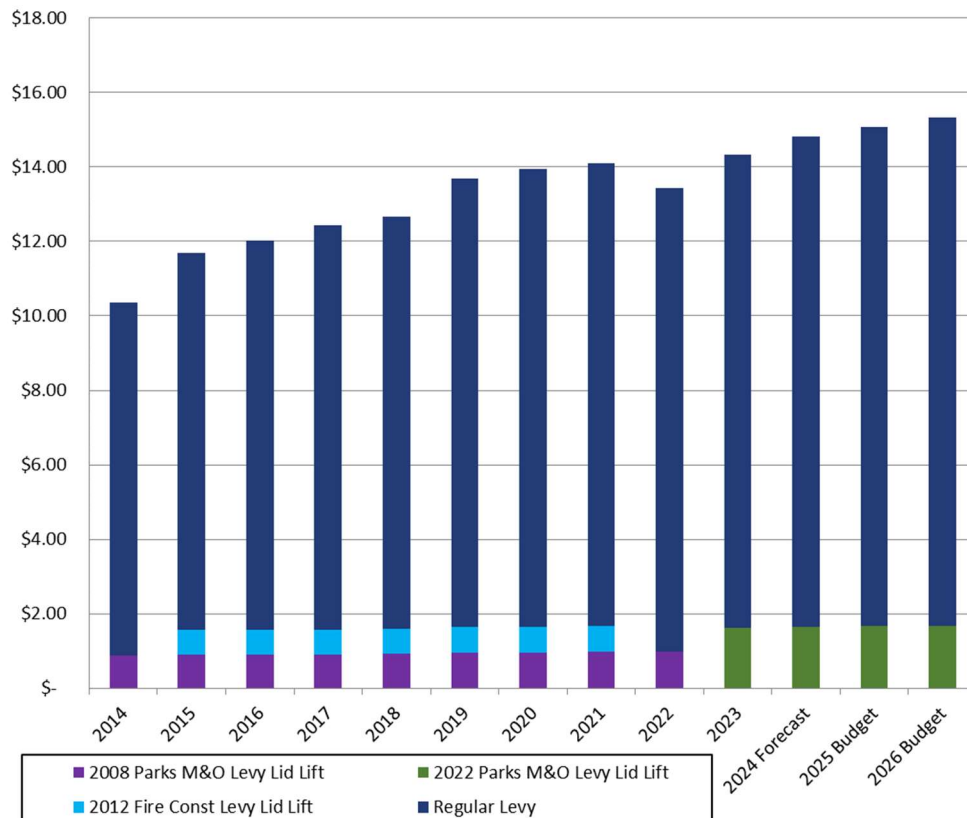


Figure 4

Revenue Sources

Levy Considerations for 2025-2026

- The regular levy for 2025 and 2026 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 2025 and 2026 is distributed to the General Fund. The dedicated portions of the regular levy are for the following:
 - LEOFF I long-term care reserve in the General Fund (\$83,000 in 2025 and 2026);
 - Community Center technology, equipment, and furnishings sinking fund in the Technology & Equipment Fund (\$18,000 is transferred from the General Fund in 2025 and 2026);
 - Fire apparatus sinking fund in the Equipment Rental Fund with \$169,958 in 2025 and \$171,657 in 2026); and,
 - Pension benefits reserve in the Firefighters’ Pension Fund (\$26,410 in 2025 and 2026).
- The 2022 Parks Maintenance and Operations levy lid lift pays for maintaining and operating City open spaces, park, and recreation facilities, and funds playground replacements, operations and maintenance of Luther Burbank Park, and forest restoration at Pioneer Park. The total levy amount for 2025 is \$1,662,082, which includes the 1% optional increase.

Of the total annual levy amount, \$911,897 is budgeted for parks capital projects in the Capital Improvement Fund. The remaining balance is budgeted for parks maintenance and operations in the General Fund.
- The City anticipates receiving \$276,307 in 2025 from the 2020 King County Parks, Trails, and Open Space levy. This levy is set to expire in 2025, pending voter approval to renew.

2023-2026 Budgetary Impact

| Revenues | 2023 Actual | 2024 Forecast | 2025 Budget | 2026 Budget |
|---|---------------------|---------------------|---------------------|---------------------|
| General Fund | | | | |
| Regular Levy (General Purpose) | \$12,599,652 | \$13,075,738 | \$13,305,331 | \$13,554,274 |
| Regular Levy (LEOFF 1 Long-Term Care) | 83,000 | 83,000 | 83,000 | 83,000 |
| Regular Levy (Community Center Sinking Fund) | 18,000 | 18,000 | 18,000 | 18,000 |
| 2022 Parks M&O Levy Lid Lift | 729,192 | 742,757 | 750,185 | 757,686 |
| Capital Improvement Fund - Parks M&O Levy Lid Lift | | | | |
| Luther Burbank Small Capital | 110,786 | 112,211 | 113,333 | 114,466 |
| Pioneer Park Forest Management | 77,550 | 78,548 | 79,333 | 80,127 |
| Open Space & Vegetation Management | 65,464 | 66,307 | 66,970 | 67,639 |
| Playground Replacement Funding | 413,183 | 418,499 | 422,684 | 426,910 |
| Forest Management Plan Funding | 224,417 | 227,305 | 229,578 | 231,873 |
| Equipment Rental Fund | | | | |
| Regular Levy (Fire Apparatus Sinking Fund) | 166,609 | 168,275 | 169,958 | 171,657 |
| 2012 Fire Station & Fire Rescue Truck Levy Lid Lift | - | - | - | - |
| Firefighters Pension Fund - Regular Levy | 26,410 | 26,410 | 26,410 | 26,410 |
| Total Levied by City | \$14,514,263 | \$15,017,048 | \$15,264,780 | \$15,532,043 |
| King County Parks Levy | 253,249 | 263,149 | 276,307 | - |
| Total Property Taxes | \$14,767,512 | \$15,280,197 | \$15,541,087 | \$15,532,043 |

Figure 5

Utility Taxes

Under Washington State law, cities are granted the authority by a vote of the City Council to levy a business and occupation tax on public and private utilities known as the utility tax. Utility taxes are levied on the gross operating revenues that utilities earn from operations within the boundaries of the

City. The tax applies to electric, natural gas, water, sewer, storm and surface water, solid waste, telephone, and cable television utilities.

Legislation limits the tax rate on electric, natural gas, and telephone utilities to 6% without voter approval. There are no legislative limitations on the tax rates for other public or private utilities. Mercer Island currently levies a 6% utility tax on electric, natural gas, and telephone utilities; a 7% utility tax on solid waste and cable television utilities; and a 5.3% utility tax on the City’s water, sewer, and storm water utilities. For comparison, according to the Association of Washington Cities’ 2024 Tax and User Fee survey, the average utility tax rate is 8.79% for water, 8.7% for sewer, and 8.2% for storm water utilities.

The actual (2014-2023) and projected (2024-2026) utility tax revenues are displayed in the following graph:

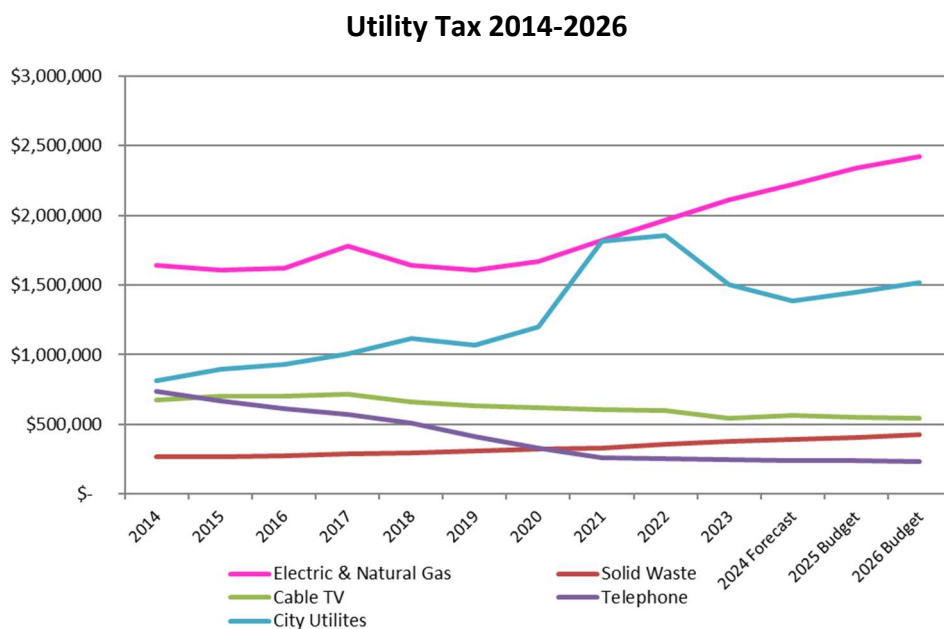


Figure 6

2023-2026 Budgetary Impact

| Revenues | 2023 Actual | 2024 Forecast | 2025 Budget | 2026 Budget |
|---|--------------------|--------------------|--------------------|--------------------|
| General Fund | | | | |
| Electric and Natural Gas | \$2,108,704 | \$2,220,254 | \$2,337,928 | \$2,419,755 |
| Solid Waste | 375,012 | 391,438 | 407,736 | 424,712 |
| Cable Television | 544,053 | 563,781 | 552,506 | 541,456 |
| Telephone | 246,708 | 240,259 | 237,137 | 234,054 |
| City Utilities (Water, Sewer & Storm Water) | 1,500,069 | 1,383,445 | 1,448,467 | 1,516,545 |
| Total Utility Taxes | \$4,774,546 | \$4,799,177 | \$4,983,773 | \$5,136,521 |

Figure 7

Revenue Sources

Sales Tax

Sales tax is levied on the sale of consumer goods (except most food products and some services) and construction. On Mercer Island, the construction sector is the largest generator of sales tax dollars (40.6% of total in 2023), followed by the retail and wholesale trade sector (29.8% of total), the administrative and support services sector (7.8% of total), and the food services sector (4.6% of total). The amount of sales tax revenue fluctuates from year to year due to changes in the economy, consumer buying habits, and the level of construction activity on Mercer Island.

The total general sales tax rate on Mercer Island is 10.20%. Similar to property tax, the City receives only a small portion of the total sales tax revenue generated on Mercer Island. Of the 10.20% tax rate, only 0.85% is remitted to the City, with the remainder distributed to the State (6.5%), King County (1.35%), and other public agencies (1.5%). An additional 0.3% sales tax is collected by Washington State on vehicle sales and leases to fund transportation improvements. The distribution of the sales tax rate is displayed in Figure 8. The 0.85% general sales tax remitted to the City of Mercer Island is accounted for in the General Fund.

| Jurisdiction | Rate % |
|------------------------------------|---------------|
| State of Washington | 6.50% |
| King County | 1.35% |
| Regional Transit | 1.40% |
| City of Mercer Island | 0.85% |
| Criminal Justice | 0.10% |
| Total General Sales Tax | 10.20% |
| Auto Sales/Leases | 0.30% |
| Total Auto Sales/Lease Rate | 10.50% |

Figure 8

The City also receives a portion criminal justice sales tax (0.1%), which is a King County voter approved optional sales tax dedicated to funding criminal justice programs. The State collects this optional tax and retains 1.5% for administration. Of the amount remaining, 10% is distributed to the county and 90% is distributed to cities based on population.

The actual (2014-2023) and projected (2024-2026) sales tax revenues are broken down into general and criminal justice restricted components in Figure 9. Taken together, sales tax revenues are projected to increase by 3.7% in 2025 and 4.0% in 2026 due to an anticipated easing of inflationary pressures on consumer spending.

Sales Tax 2014-2026

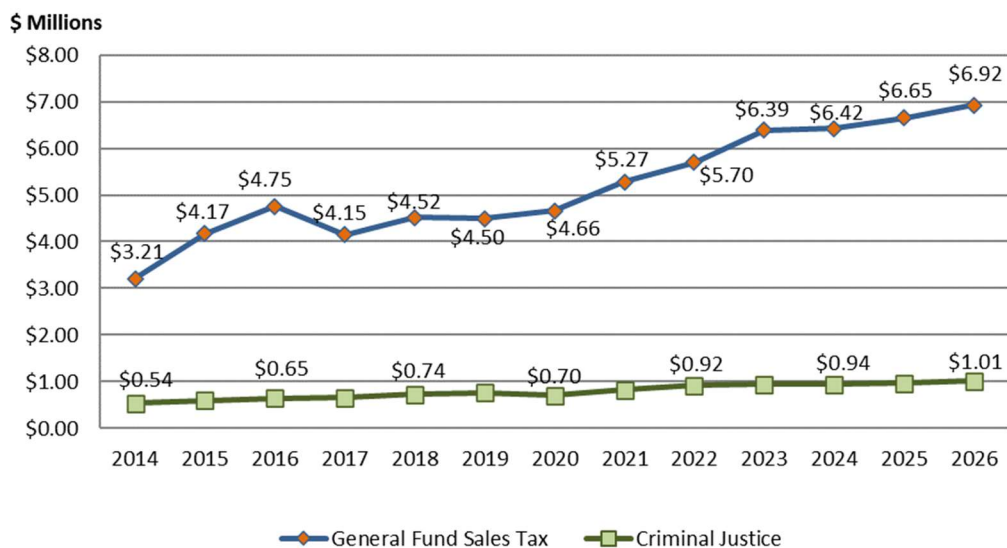


Figure 9

2023-2026 Budgetary Impact

| Revenues | 2023 Actual | 2024 Forecast | 2025 Budget | 2026 Budget |
|---|--------------------|--------------------|--------------------|--------------------|
| General Fund (General Sales Tax) | \$6,395,651 | \$6,420,029 | \$6,659,111 | \$6,925,475 |
| General Fund (Criminal Justice Sales Tax) | 941,734 | 944,559 | 979,734 | 1,018,924 |
| Total Sales Taxes | \$7,337,385 | \$7,364,588 | \$7,638,845 | \$7,944,399 |

Figure 10

Real Estate Excise Tax

The Real Estate Excise Tax (REET) is levied on all sales of real estate, measured by the full selling price, including the amount of any liens, mortgages, and other debts given to secure the purchase. The State levies this tax at a rate of 1.28%. Local governments are also authorized to impose a local REET of up to 0.5%. All cities and counties may levy a quarter percent tax, described as the “first quarter percent of the real estate excise tax or REET 1.” In addition, cities and counties planning under the Growth management Act have the authority to levy a second quarter percent tax known as REET 2.

REET 1 (RCW 82.46.010) revenues are restricted to spending for capital projects that are listed in the capital facilities plan element of the City’s comprehensive plan where capital projects are defined as: *public works projects of a local government for planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of streets; roads; highways; sidewalks; street and road lighting systems; traffic signals; bridges; domestic water systems; storm and sanitary sewer systems; parks; recreational facilities; law enforcement facilities; fire protection facilities; trails; libraries; administrative and judicial facilities.*

REET 2 (RCW 82.46.035) revenues provide funding for cities to finance capital improvements required under the Growth Management Act. As amended, REET 2 capital projects are defined as: *public works projects of a local government for planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of streets, roads, highways, sidewalks, street and road lighting systems, traffic signals, bridges, domestic water systems, storm and sanitary sewer systems, and planning, construction, reconstruction, repair, rehabilitation, or improvements of parks.*

REET revenue can vary significantly from year to year because property sales are dependent on economic conditions and interest rates. In 2008, as the “Great Recession” took hold, the nation and the Puget Sound region experienced a major contraction in the housing market. REET revenues declined significantly in 2008, hitting bottom in 2009 as the number of home sales dropped from 608 in 2004, which represented the peak sales year, to 265 in 2008.

Over the past five years (2019-2023), the number of home sales has averaged 397 per year, and the average home sales price from homes sold for less than \$5 million increased from \$1.62 million in 2019 to \$2.13 million in 2023. The actual (2014-2023) and forecasted (2024-2026) REET revenues are shown in the chart below.

Revenue Sources

Real Estate Excise Tax 2014-2026

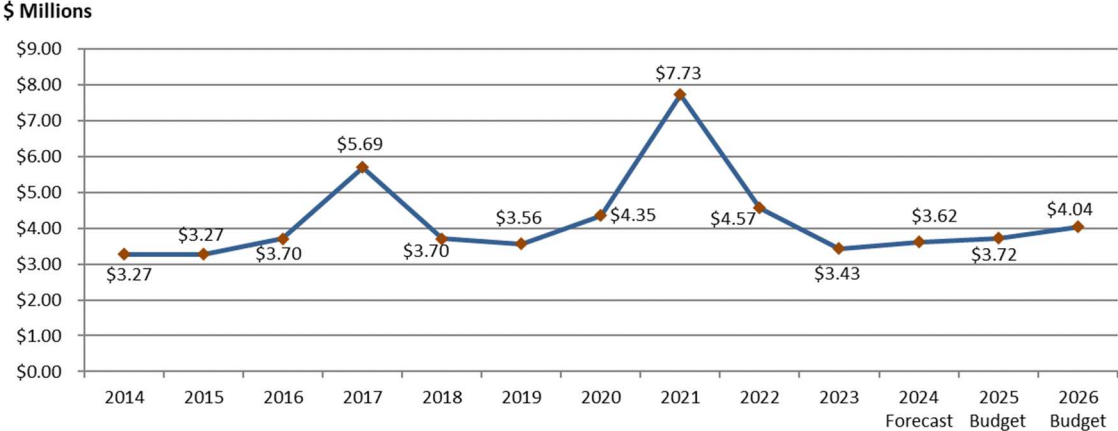


Figure 11

Over the past few years, home sales have slowly been decreasing from a fifteen year high of 530 sales in 2021, down to 303 and 290 in 2022 and 2023 respectively. Looking forward, it is expected that the number of home sales will increase due to interest rate cuts and the potential reduced costs of borrowing. REET revenue is projected to increase by 2.8% in 2025 and 8.6% in 2026.

The City’s current CIP financing strategy for REET revenues utilizes:

- 100% of REET-1 revenues to fund parks, open space, and public building maintenance projects and to pay the debt service on the construction of the Community Center in the Capital Improvement Fund.
- 90% of REET-2 revenues to fund construction and maintenance of streets and pedestrian and bicycle facilities in the Street Fund, and 10% of REET-2 revenues directed to the Capital Improvement Fund.

2023-2026 Budgetary Impact

| Revenues | 2023 Actual | 2024 Forecast | 2025 Budget | 2026 Budget |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|
| Capital Improvement Fund (REET 1) | \$1,717,564 | \$1,814,386 | \$1,864,036 | \$2,023,437 |
| Capital Improvement Fund (REET 2) | 171,399 | 181,439 | 186,404 | 202,344 |
| Street Fund (REET 2) | 1,542,593 | 1,632,948 | 1,677,633 | 1,821,094 |
| Total Real Estate Excise Taxes | \$3,431,556 | \$3,628,773 | \$3,728,073 | \$4,046,875 |

Figure 12

Business and Occupation Tax

The City of Mercer Island collects a Business and Occupation tax from all active Business License holders with gross revenue more than \$150,000 per calendar year. The first \$150,000 of revenue per year is exempt from tax. Revenue of \$150,001 and above are taxed at a rate of .0010 with a \$20.00 minimum payment.

Taxpayers are required to file an annual B&O tax return by April 15th for the prior year. Taxpayers earning more than \$1.0 million a year are required to remit a quarterly B&O tax return. B&O tax revenues go into the General Fund to support general government services.

2023-2026 Budgetary Impact

| Revenues | 2023 Actual | 2024 Forecast | 2025 Budget | 2026 Budget |
|----------------------------|------------------|------------------|------------------|------------------|
| General Fund | \$935,727 | \$741,084 | \$748,495 | \$755,980 |
| Total B&O Taxes | \$935,727 | \$741,084 | \$748,495 | \$755,980 |

Figure 13

Utility Rates

The City operates three separate utilities (Water, Sewer, and Storm Water), which are managed like a business, with customer charges funding all operating and maintenance costs as well as capital investments.

The following factors are considered in the 2025-2026 Preliminary Budget:

- Water Rates** – Customer charges pay for the cost of purchasing water from the City of Seattle and for operating, maintaining, and replacing the City’s water storage and distribution system. An 8.0% increase has been proposed for 2025 and is anticipated for 2026, which equates to a \$11.40 and \$12.31 respectively on a typical single-family residential customer’s bi-monthly water bill. These rate increases are primarily driven by the need to:

 - Upsize water mains that do not meet the City’s flow capacity standards.
 - Repair and replace pressure reducing valves throughout the distribution system to maintain flow capacity standards.
 - Fund multi-generational capital improvements that have reached the end of their useful life.
- Sanitary Sewer Rates** – Customer charges pay for the cost of operating, maintaining, and replacing the City’s sanitary sewer system. A 4.5% increase has been proposed for 2025 and is anticipated for 2026, which equates to a \$3.08 and \$3.22 increase respectively on a typical single-family residential customer’s bi-monthly sewer bill. These rate increases are primarily driven by the capital reinvestment needs of an aging sanitary sewer system.
- Sewage Treatment Rate** – This is a “pass through” charge assessed by King County, which provides wastewater treatment services to Mercer Island. A 5.75% increase is anticipated for 2025 and a 7.00% increase for 2026, which equates to a \$6.34 and \$8.16 increase respectively on a typical single-family residential customer’s bi-monthly sewer bill.
- Storm Water Rates** – Customer charges pay for the cost of operating, maintaining, and replacing the City’s surface and storm water system. An 8.0% increase has been proposed for 2025 and is anticipated for 2026, which equates to a \$3.71 and \$4.01 respectively on every single-family residential customer’s bi-monthly storm water bill. These rate increases are primarily driven by planned watercourse stabilization, drainage system extension, and culvert replacement projects.

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2023-2026 Budgetary Impact

| Revenues | 2023 Actual | 2024 Forecast | 2025 Budget | 2026 Budget |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|
| Water Fund | \$11,159,630 | \$11,663,490 | \$12,596,569 | \$13,604,295 |
| Sewer Fund | 11,328,832 | 12,022,731 | 12,636,827 | 13,359,815 |
| Storm Water Fund | 2,563,724 | 2,761,152 | 2,999,045 | 3,228,968 |
| Total Utility Rate Revenues | \$25,052,186 | \$26,447,373 | \$28,232,441 | \$30,193,078 |

Figure 14

Development Fees

The authority for cities in Washington to impose fees for development review and permitting is established and limited by RCW 82.02.020, which allows for “collecting reasonable fees from an applicant for a permit or other government approval to cover the cost to the city...of processing applications, inspecting and reviewing plans, or preparing [SEPA documents].”

In 2024, Finance and the Community Planning and Development Department effectively established a new special revenue fund. All revenues and expenditures tied to development services are tracked to the Development Services Fund, incorporated in the 2025-2026 biennial budget as Fund 180.

In November 2019, the City Council adopted the following target cost recovery levels for eligible CPD costs. These recovery targets have remained in place and are used for revenue projections for development related services through the 2025-2026 biennium.

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

Actual and forecasted total development fees for the period 2015-2026 are shown in Figure 15.

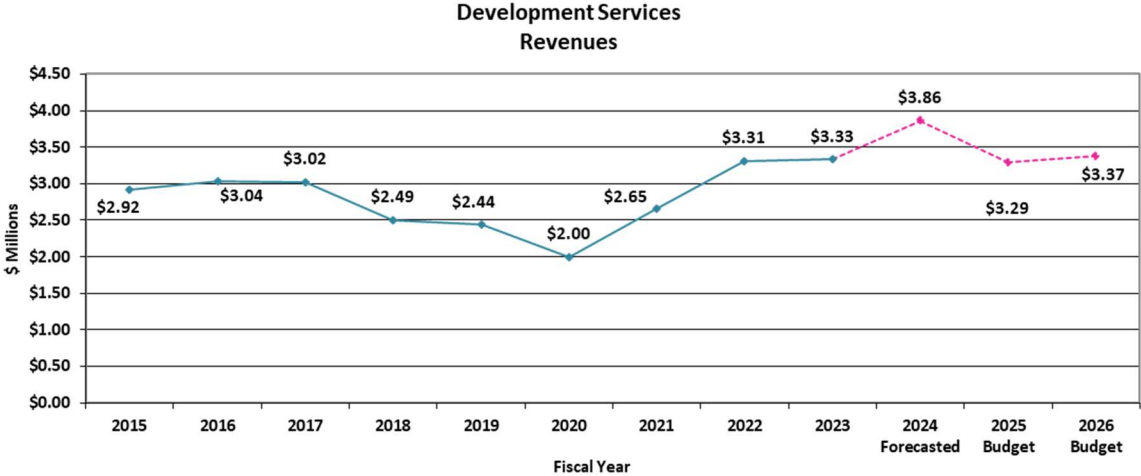


Figure 15

Overall, development fees are projected to decrease 15% in 2025 below 2024 forecasted levels, and to increase 3% in 2026 relative to the prior year. The spike in 2024 is directly related one-time revenues resulting from a mixed used development project in the Town Center.

2023-2026 Budgetary Impact

| Revenues | 2023 Actual | 2024 Forecast | 2025 Budget | 2026 Budget |
|--|---------------------|---------------------|---------------------|---------------------|
| General Fund | \$ 3,330,630 | \$ 3,858,789 | - | - |
| Development Services Fund | - | - | \$ 3,287,875 | \$ 3,373,881 |
| Total Development Fees Revenues | \$ 3,330,630 | \$ 3,858,789 | \$ 3,287,875 | \$ 3,373,881 |

Figure 16

State Shared Revenues

State shared revenues are taxes and fees collected by the State and disbursed to municipalities based on population or other criteria. The primary shared revenues received by the City are the fuel tax (tax on gasoline consumption), marijuana excise tax, liquor excise tax and profits, vessel registration fees, criminal justice distributions, and the fire insurance premium tax.

- Motor Vehicle Fuel Tax (Gas Tax)**
 This is a fixed tax, currently making up 49.4 cents of the per gallon price of gasoline, diesel, and other fuels. It applies to the volume, not the dollar amount, of the fuel sale. The Gas Tax is distributed to incorporated cities and towns based on population. The City’s portion of the motor vehicle fuel tax is budgeted in the Street Fund and is used for street construction projects. The share of the motor vehicle fuel tax distributed to the City of Mercer Island is projected to increase 2.9% in 2025 and 3.0% in 2026.
- Marijuana Excise Tax**
 On November 6, 2012, Washington State voters passed Initiative 502. The initiative makes it legal for businesses holding the appropriate marijuana license(s) to produce, process, or make retail sales of marijuana for recreational use. The Liquor and Cannabis Board (LCB) administers and collects the 37% marijuana excise tax. The State distributes a portion of the tax collected to counties, cities, and towns on a per capita basis. The distribution formula depends not only on population, but also on marijuana retail sales as a proportion of total retail sales, as well as the number/total population of cities and counties that prohibit marijuana, which continues to be in flux as local governments act on regulating or prohibiting marijuana. Funds may only be distributed to jurisdictions that do not prohibit the siting of any state licensed marijuana producer, processor, or retailer (RCW 69.50.540). The share of the marijuana excise tax distributed to the City of Mercer Island is projected to increase 14.3% in 2025 and decrease 32.8% in 2026.
- Liquor Excise Tax and Liquor Profits**
 Initiative 1183 was approved by Washington's voters in November 2011 "privatizing" the distribution and retail sale of liquor and ending the state’s monopoly on liquor sales. Instead of a calculation based upon the profits generated from state run liquor sales, the revenue distribution is now based on the collection of license fees paid by retailers and distributors. In 2012 the state legislature passed a law permanently diverting \$2.5 million per quarter from the state liquor excise tax fund (for distribution to cities and counties) to the state general fund. The 2013-2015 state budget reduced the share of liquor excise taxes collected and remitted to cities and counties from 35% to 22.5%. The share of the liquor excise taxes and profits distributed to the City of Mercer Island are projected to decrease 0.8% in 2025 and increase 3.0% in 2026.
- Vessel Registration Fees**
 Funds are allocated to counties with eligible boating safety programs approved by the State Parks and Recreation Commission. Distribution is based on the number of vessels registered in each

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county. Counties can also further allocate this money to local jurisdictions with approved boating safety programs. The Mercer Island Marine Patrol division is a qualified boating safety program and receives a portion of the King County vessel registration fees. The share of vessel registration fees distributed to the City of Mercer Island are projected to increase by 1.8% in 2025 and 1.7% in 2026.

- Criminal Justice Distributions**
 The State distributes dollars based on population for criminal justice purposes. These revenues are restricted for: 1) innovative law enforcement strategies; 2) implementation of DUI or other criminal justice statutes; 3) programs to help at risk children or child abuse victim resource programs; and 4) programs designed to reduce the level of domestic violence or to provide counseling for domestic violence victims. Criminal justice distributions are budgeted in the General Fund and are projected to increase 3.6% in 2025 and 0.4% in 2026.
- Fire Insurance Premium Tax**
 The state distributes taxes on fire insurance premiums, which must be deposited in a firefighter’s pension fund to help pay the pension benefits due to pre-LEOFF I firefighter retirees. The fire insurance premium tax is projected to increase by 3% in 2025 and 2026.

2023-2026 Budgetary Impact

| Revenues | 2023 Actual | 2024 Forecast | 2025 Budget | 2026 Budget |
|---|---------------------|---------------------|---------------------|---------------------|
| General Fund | | | | |
| Liquor Excise and Profits | \$ 378,591 | \$ 362,772 | \$ 359,812 | \$ 370,606 |
| Marijuana Excise Tax | 41,012 | 41,000 | 46,881 | 31,496 |
| Vessel Registration Fees | 70,052 | 84,793 | 86,327 | 87,763 |
| Criminal Justice Population based distributions | 45,370 | 42,500 | 44,039 | 44,197 |
| Street Fund (Motor Vehicle Fuel Tax) | 475,915 | 474,360 | 475,000 | 475,000 |
| Firefighters Pension Fund (Fire Insurance Premium Tax) | 39,913 | 40,319 | 41,500 | 42,745 |
| Total State Shared Revenues | \$ 1,050,852 | \$ 1,045,744 | \$ 1,053,559 | \$ 1,051,807 |

Figure 17

Emergency Medical Service Revenues

The City of Mercer Island receives revenues in support of emergency medical services, which are provided by Eastside Fire and Rescue. Major revenues include that offset the cost for fire and emergency medical services include 1) King County Emergency Medical Services Levy, 2) BLS Ambulance Transport Fee, 3) Ground Emergency Medical Transport Revenues, and 4) Emergency Medical Service (EMS) utility charge.

- King County EMS Levy** – Beginning in 1990, the City began receiving a portion of the 25 cent King County property tax levy that was approved by voters for 911 emergency services. The King County levy was renewed for a six-year period beginning in 2020, with the 2020 levy rate set at \$0.265 per \$1,000 of assessed valuation. Distribution to municipalities is based on a formula that considers the number of calls for service, total assessed valuation, and the consumer price index (CPI-U).
- Ambulance Transport Fee** – Beginning March 2011, the Fire Department began charging a fee for transporting patients requiring non-emergency, basic life support to hospitals. The program was established to create a sustainable revenue source to support the cost of providing emergency medical services. In June 2021, the City Council updated the base transport fee and per mile

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reimbursement based on the average of the closest neighboring public agencies who provide medical transport services.

- Ground Emergency Medical Transport** – In July 2020, the City enrolled in a Federal Emergency Medical Services (EMS) transportation fee program called Ground Emergency Medical Transport (GEMT) to recover costs associated with transports, specifically from Medicaid. Revenues are calculated annually, based on the number of emergency medical transports of patients covered by Medicaid. Eastside Fire and Rescue also participates in the GEMT program. GEMT revenues resulting from transports that originate on Mercer Island offset the fees for fire and emergency medical services provided by Eastside Fire and Rescue.
- Emergency Medical Service (EMS) Utility Charge** – This utility charge is adjusted each year based on the average cost of four firefighter positions, which were hired in 1996 to provide capacity to handle simultaneous EMS calls. In addition, the utility charges are adjusted every two years based on the EMS call history over the previous 2-year period. Starting in 2011, the demand portion of the rate was adjusted based on revenue expected to be collected from ambulance transport fees, resulting in a flat rate per equivalent service unit (ESU). A 5.81% increase has been proposed for 2025.

2023-2026 Budgetary Impact

| Revenues | 2023 Actual | 2024 Forecast | 2025 Budget | 2026 Budget |
|---------------------------|---------------------|---------------------|---------------------|---------------------|
| General Fund | | | | |
| King County EMS Levy | \$ 734,167 | \$ 809,000 | \$ 833,270 | \$ 858,268 |
| Ambulance Transport Fee | 482,481 | 247,930 | 315,000 | 315,000 |
| GEMT Program | 262,967 | 170,275 | 175,000 | 175,000 |
| EMS Utility Charge | 678,109 | 746,235 | 790,241 | 813,948 |
| Total EMS Revenues | \$ 2,157,724 | \$ 1,973,440 | \$ 2,113,511 | \$ 2,162,216 |

Figure 18

Parks and Recreation Fees

The Parks and Recreation Department’s operations have historically been funded from a variety of sources, including user, program and special event fees, grants, sponsorships, donations, and rental and lease fees. The Department’s operations are classified into three functional areas: Recreation, Mercer Island Community and Events Center (MICEC), and Parks Maintenance. Each of the functional areas relies on a mix of revenue sources, which are briefly reviewed below.

- Recreation** – Includes athletics, health and fitness, outdoor aquatics, cultural and arts programming, and senior services, and relies primarily on program fees and community sponsorships.
- Mercer Island Community and Event Center** – The MICEC’s primary source of funding is facility rental fees (short-term room rentals and long-term daycare space in the Annex). Additional revenues are generated through drop-in sports programs and membership passes for the fitness room. Facility rental rates are regularly evaluated and adjusted as needed.
- Sports fields Maintenance** – Includes facility rental fees and special use permit fees. These fees are intended to help offset the cost of maintaining sports fields.

Revenue Sources

2023-2026 Budgetary Impact

| Revenues | 2023 Actual | 2024 Forecast | 2025 Budget | 2026 Budget |
|---|---------------------|---------------------|---------------------|---------------------|
| General Fund | | | | |
| Recreation | \$ 237,082 | \$ 298,410 | \$ 270,000 | \$ 275,000 |
| MI Community & Events Center | 718,461 | 866,881 | 896,500 | 911,500 |
| Sport Field Facility Rentals | 217,674 | 138,827 | 205,000 | 205,000 |
| Total Parks and Recreation Revenue | \$ 1,173,217 | \$ 1,304,118 | \$ 1,371,500 | \$ 1,391,500 |

Figure 19

Thrift Shop Sales

The Youth and Family Services Department (YFS) provides a broad range of human and community services to the residents of Mercer Island. The primary mission of the Thrift Shop is to raise money to help support the services of the YFS Department. Services include family and school-based counseling, senior adult outreach, substance abuse prevention and intervention, and emergency family assistance.

Thrift Shop revenues were significantly impacted in 2020 and 2021 by the COVID-19 Pandemic. City Council approved an expenditure budget amendment during the 2021 mid-biennial budget process to increase expenditures in 2022 and rebuild Thrift Shop operations. Staff anticipate revenues will increase 10% each year of the biennium above 2024 projections.

2023-2026 Budgetary Impact

| Revenues | 2023 Actual | 2024 Forecast | 2025 Budget | 2026 Budget |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|
| YFS Fund (Thrift Shop) | \$ 1,571,418 | \$ 1,723,108 | \$ 1,895,000 | \$ 2,080,000 |
| Total Thrift Shop Revenue | \$ 1,571,418 | \$ 1,723,108 | \$ 1,895,000 | \$ 2,080,000 |

Figure 20

Municipal Court Fines and Forfeits

The revenue that is collected from fines, forfeitures, fees, costs, and penalties associated with the enforcement of ordinances and statutes is allocated to both the City of Mercer Island and the State of Washington. The type of statute violated determines the percentage of each payment that is retained by the City versus remitted to the State.

Court revenues are highly dependent on caseload. It is important to note that the court’s responsibility does not end with the caseload filed in that calendar year. In most cases, the court has jurisdiction over criminal cases for two years. For DUI matters, jurisdiction continues for five years. The Court continues to manage court cases, hold court hearings, and monitor cases for compliance with conditions until the end of the jurisdictional period. Court revenues are anticipated to decrease due to the shift in operations that was required as a result of City Hall’s closure. The Court currently operates out of the neighboring town of Newcastle via a lease.

2023-2026 Budgetary Impact

| Revenues | 2023 Actual | 2024 Forecast | 2025 Budget | 2026 Budget |
|---|-------------------|-------------------|-------------------|-------------------|
| General Fund - Municipal Court Fines | \$ 220,647 | \$ 149,453 | \$ 175,000 | \$ 185,000 |
| Total Fines & Forfeits | \$ 220,647 | \$ 149,453 | \$ 175,000 | \$ 185,000 |

Figure 21

Cost Allocation Charges

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

This interfund charge is determined through an indirect cost allocation model using various bases of allocation for distributing the overhead costs. Changes in interfund charges from year-to-year are directly related to annual changes in the bases of allocation used to distribute these costs.

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

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

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

2023-2026 Budgetary Impact

| Revenues | 2023 Actual | 2024 Forecast | 2025 Budget | 2026 Budget |
|--|-------------------|-------------------|---------------------|---------------------|
| Cost Allocation Charges to the General Fund | | | | |
| Water Fund | \$ 369,533 | \$ 397,770 | \$ 714,828 | \$ 748,134 |
| Sewer Fund | 287,058 | 307,901 | 488,699 | 511,863 |
| Storm Water Fund | 120,547 | 127,506 | 179,821 | 189,227 |
| Development Services Fund | - | - | 406,403 | 428,585 |
| Total Cost Allocation Charges | \$ 777,138 | \$ 833,177 | \$ 1,789,751 | \$ 1,877,809 |

Figure 22