

# Section C. Budget Policies

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# BUDGET POLICES

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## General Government

This section includes budget polices on the following:

- Beautification Fund
- Communications
- Debt Financing
- Investment Earnings
- 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 and 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;
- The 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 annual exemptions from \$20,000 to \$150,000, establishing a uniform tax rate of .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 the City staff.

Historically, expenditures of the Beautification Fund included the operation and maintenance of the medians and planters in the downtown, the holiday lighting program, support for the Chamber of Commerce, maintenance of I-90 corridor landscaping, the restricted parking program, business licensing and business and occupation tax administration, and City support for The Northwest Center's operation of the Mary Wayte Pool. Since creation of the Fund, a substantial sum has been spent on other beautification projects and the broad language of the Code has been construed to permit a variety of undertakings.

### Budget Policies for 2011-2012

- Move CBD utility costs from the General Fund to the Beautification Fund.
- Continue support of ongoing Town Center beautification efforts, including Holiday lighting and maintenance of medians and planters.

# Budget Policies

## 2011-2012 Budget Impact

Description	2009 Actual	2010 Forecast	2011 Budget	2012 Budget
<b>RESOURCES</b>				
<b>Budgeted</b>				
Beginning Fund Balance		\$ 69,341	\$ 103,057	\$ 100,000
Business and Occupation Tax	361,739	325,000	335,000	348,000
Permit Parking Program	2,860	2,550	2,850	2,550
Landscaping Services (WSDOT)	443,812	444,120	447,895	451,000
Interfund Transfer - General Fund	70,000	-	-	-
<b>Total Budgeted Resources</b>	<b>\$ 878,411</b>	<b>\$ 841,011</b>	<b>\$ 888,802</b>	<b>\$ 901,550</b>
<b>Not Budgeted</b>				
Beginning Fund Balance (Reserved)	658,681	593,891	590,834	495,575
<b>TOTAL RESOURCES</b>	<b>\$ 1,537,092</b>	<b>\$ 1,434,902</b>	<b>\$ 1,479,636</b>	<b>\$ 1,397,125</b>
<b>USES</b>				
<b>Budgeted</b>				
Chamber of Commerce	\$ 14,400	\$ 14,400	\$ 14,400	\$ 14,400
Financial Services \ Parking Program	15,199	12,400	12,800	12,900
Town Center Beautification	139,845	170,000	166,453	166,948
Mary Wayte Pool Operations	100,000	100,000	125,000	125,000
I-90 Landscape Maintenance	521,482	442,171	490,408	497,626
Town Center Plaza	80,462	2,040	-	-
Farmers Market Grant	2,472	-	-	-
Interfund Transfer - CIP	-	-	75,000	75,000
<b>Total Budgeted Expenditures</b>	<b>\$ 873,860</b>	<b>\$ 741,011</b>	<b>\$ 884,061</b>	<b>\$ 891,874</b>
<b>Not Budgeted</b>				
Ending Fund Balance	663,232	693,891	595,575	505,251
<b>TOTAL USES</b>	<b>\$ 1,537,092</b>	<b>\$ 1,434,902</b>	<b>\$ 1,479,636</b>	<b>\$ 1,397,125</b>

## 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 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.

#### The Roles and Responsibilities of the Full Time Communications Coordinator

The Communications Coordinator provided full time communications and public involvement support to City departments from March 2006 to March 2010.

The primary roles and responsibilities of the full-time Communications Coordinator included:

- Serving as the primary media contact for the City of Mercer Island
- Managing targeted communications and outreach strategies for individual City departments,
- Producing City-wide communications materials
- Overseeing MI-TV broadcast production and programming.
- Managing the City's public involvement efforts
- Training as a Public Information Officer (PIO) to support the Mercer Island Emergency Operations Center in the event of a natural disaster or other crisis.
- Assistance with the City's sustainability efforts.

#### City Communications Today

The current Communications Coordinator works at 60% time, providing the minimum level of communications services needed to keep Mercer Islanders informed about the City's work.

### Budget Policies for 2011-2012

Under this model, the Communications Coordinator will continue to work at 60% time, providing only the essential level of communications services needed to keep Mercer Islanders informed.

The following outlines the proposed overarching goal for City communications in the 2011-2012 biennium under this model:

*Get back to basics. Excel at communicating with citizens via the obvious channels, especially through print media and the website (particularly through the news and events pages calendar). Inform citizens before things happen and as they happen instead of after they happen. Build collaborative relationships with*

## Budget Policies

*individual departments to meet their communications needs and most importantly, the needs of Mercer Islanders.*

Specific functions will include:

- Serving as the primary media contact for the City of Mercer Island.
- Managing targeted communications and outreach strategies for individual City departments, including the development and implementation of coordinated, relevant and timely print and web materials.
- Producing City-wide communications materials, including writing, editing, designing and/or distributing all print and web materials
- Training as a Public Information Officer in order to support the Mercer Island Emergency Operations Center in the event of a natural disaster or other crisis
- Reviewing and editing all web content prior to posting to help ensure City communications are accurate, consistent and accessible.
- Coordinating public involvement efforts with individual departments on major policy issues that affect the community.

### 2011-2012 Budget Impact

	2009	2010	2011	2012
<b>Expenditures</b>				
Salary and Benefits	\$ 94,829	\$ 106,413	\$ 59,364	\$ 62,312
MI-TV (services & supplies)	17,562	38,200	27,000	27,000
MI Quarterly (printing & postage)	11,083	21,000	11,700	11,700
Other operating costs	4,654	5,547	4,691	4,691
<b>Total Expenditure</b>	<b>\$ 128,128</b>	<b>\$ 171,160</b>	<b>\$ 102,755</b>	<b>\$ 105,703</b>

## Debt Financing

### Background

The City has prudently issued little 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 for its unlimited tax general obligation (UTGO), or voted, bonds and a Aa2 rating on its limited tax general obligation (LTGO), or non-voted, bonds. Only four cities have equivalent or higher UTGO bond ratings according to Moody's: Seattle (Aaa), Bellevue (Aaa), Redmond (Aa1), and Kirkland (Aa1). 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 12/31/2009, the available debt capacity margin was \$202,396,480 for general purposes (voted, non-voted and lease debt), \$217,767,201 for utility purposes (voted debt), and \$217,767,201 for open space and parks facilities (voted debt).

The City annexed to the King County Library System district (KCLS) in 1994, and as part of the annexation, KCLS agreed to buy the library from the City for a price equal to the remaining debt service costs of the 1990 Library bond issue. A lease purchase agreement was signed, resulting in annual lease payments to the City of \$206,576 through December 2009 when the debt was retired.

In 1996, the City refinanced three bond issues to obtain interest savings for the taxpayers. The total present value savings for these issues amounted to over \$548,000.

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 with City reserves; however, \$2,040,000 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 each lease purchase as of December 31, 2010 is \$758,561 and \$166,336 respectively.

In 2009, the City issued \$10.4 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 GO bond 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. Ultimately, the emergency water well project will be funded by the sale of a water utility property in the First Hill neighborhood. 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.

# Budget Policies

## Budget Policies for 2011-2012

- The City will confine long-term borrowing to fund 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.

## 2011-2012 Budget Impact

Description	2009 Actual	2010 Forecast	2011 Budget	2012 Budget
<b>Voted Debt:</b>				
1996 Refunding Bonds	\$ 199,880	\$ -	\$ -	\$ -
King County Library Payment	(206,576)	-	-	-
<b>Total Amount to be Levied in Taxes</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Non-Voted Debt:</b>				
2003 Mercerview Property	\$ 210,061	\$ 205,441	\$ 200,409	\$ 195,170
2004 CCMV Construction	149,760	152,210	149,285	151,135
2009 LTGO Water Well	-	23,923	25,430	26,593
2009 LTGO South Mercer Playfields	-	95,491	96,336	94,936
2009 LTGO Sewer Lake Line	-	677,923	677,113	679,713
2011 LTGO First Hill Water System	-	-	-	92,251
<b>Lease Obligations</b>				
2007 Fire Velocity Pumpers	128,023	128,023	128,023	128,023
2007 Fire Mini Pumper	37,721	37,721	37,721	37,721
<b>Total General Obligation Debt</b>	<b>\$ 525,565</b>	<b>\$ 1,320,732</b>	<b>\$ 1,314,317</b>	<b>\$ 1,405,542</b>
<b>Public Works Trust Fund Loans</b>				
Sewer Pump Rehab II	\$ 17,727	\$ 17,727	\$ 17,727	\$ 17,727
Sewer Lake Line	177,479	408,202	411,353	409,449
<b>Total Public Works Trust Fund</b>	<b>\$ 195,206</b>	<b>\$ 425,928</b>	<b>\$ 429,080</b>	<b>\$ 427,175</b>

## Investment Earnings

### Background

The City pools its cash and invests it in certificates of deposit (CD's) and other investments authorized by the Revised Code of Washington. To forecast interest earnings, the Finance Department estimates the average cash balances for all funds as of year-end and then applies a projected rate of return to the total cash balance.

By pooling and investing its cash, the City is able to obtain the best possible rate of return while still preserving liquidity. City funds are always fully invested in a combination of timed deposits, money market accounts, and an interest bearing checking account.

To maximize interest earnings, the City has all of our state revenues wired directly into a City account with the State Investment Pool. The State Investment Pool has the advantage of paying excellent rates while being completely liquid. All of the City's funds are currently invested in the State Investment Pool.

Interest earnings are allocated to the City's funds monthly based on the following prioritized distribution policy, which took effect on January 1, 2009:

- a. Water Utility Fund, Sewer Utility Fund, Storm Water Utility Fund, Firemen's Pension, and Youth Services Endowment Fund based on cash balance;
- b. \$325,000 annually to the General Fund (which is approximately 1.5% of General Fund budget);
- c. Fire apparatus replacement reserve, which resides in the Equipment Rental Fund, based on the difference between the annual sinking fund charge for fire apparatus replacement and the 1.65% property tax levy dedicated for this same purpose;
- d. LEOFF I long-term care reserve, which resides in the General Fund, based on cash balance;
- e. Contingency Fund based on cash balance;
- f. Street Fund, Capital Improvement Fund, and Technology & Equipment Fund for those CIP projects that have investment interest as a budgeted revenue source;
- g. Any remaining balance would be allocated to the Capital Reserve Fund for unspecified CIP projects.

The City treasurer's primary objective in investing cash is to preserve the principal of the investment, while striving to maximize investment returns.

### Budget Policies for 2011-2012

- For the 2011-2012 biennium, the following changes are being made to the distribution policy due to the current historic low rate of return, which is projected to continue for the coming biennium:
  - There will be no allocation to the fire apparatus replacement reserve, the LEOFF I retiree long-term care reserve, or the Contingency Fund as long as the rate of return is under 1%.
  - The General Fund annual distribution cap, which was \$325,000 for the 2009-2010 biennium, excluding the LEOFF I long-term care reserve, is being reduced to \$150,000.

# Budget Policies

## 2011-2012 Budget Impact

<b>Revenues</b>	<b>2009 Actual</b>	<b>2010 Forecast</b>	<b>2011 Budget</b>	<b>2012 Budget</b>
General Fund (for general operations)	\$74,820	\$24,600	\$25,000	\$35,000
LEOFF I Reserve (General Fund)	0	0	0	0
Fire Apparatus Replacement Reserve (Equipment Rental Fund)	0	0	0	0
All Other Funds	168,338	51,056	40,312	33,923
<b>Total Revenues</b>	<b>\$243,158</b>	<b>\$75,656</b>	<b>\$65,312</b>	<b>\$68,923</b>

## 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 pensions 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 years or more of service but do not withdraw their contributions).

LEOFF Plan I membership consists of active and 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 reasonable costs for medical services incurred by active and retired members not paid by insurance obtained by either the employer or someone else. 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.

### The Disability Board

The pivotal point in the extent of LEOFF Plan I medical cost is the local disability board. This board is responsible for the determination of duty and non-duty disability and 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 active or 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, as well as 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 members 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. However, these medical insurance plans do not cover expenses related to long-term care services.

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 expense. Both in 1996 and in 2002, the City of Mercer Island received quotes directly from UNUM Life Insurance Company of America to cover the LEOFF Plan I members. In 1996, the annual cost to cover Mercer Island LEOFF Plan I members was in excess of \$64,000 per year and covered approximately 60 percent of the total long-term care expenses. Additionally, several LEOFF Plan I members were not insurable based on their health history. In 2002, the annual cost to cover the LEOFF Plan I members was in excess of \$125,000.

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 semi-private room as private pay. 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 two (2) 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 paid out in 2004 and 2005.

There are thirty-six (36) remaining City of Mercer Island LEOFF I members. The potential for future claims for long-term care expenses from a number of Mercer Island LEOFF Plan I members is probable. Therefore, a source of funding must be considered and established.

## Funding Source

The previous actuarial valuation of Long Term Care Benefits for LEOFF I members, completed in 2004, estimated a \$1.1 million target balance to fund the LEOFF I long term care obligation. The most recent actuarial valuation of the City's long-term care obligation, calculating the liability as of the year ending December 2007, estimates that target balance to be \$2.07 million. As of December 31, 2010, the City has accumulated \$913,108 toward funding this target balance. The LEOFF I members' retiree medical insurance premiums and direct medical costs are budgeted separately from regular employee costs.

## Budget Policies for 2011-2012

- Schedule another actuarial study in 2011, which is included in the proposed budget. The last one was completed in 2008. A full pension actuarial valuation is required by GASB (for those cities preparing Comprehensive Annual Financial Reports) at least every two years and by the State Auditor's Office every five years. Finance staff recommends updating the pension, long-term care, and medical cost valuation every three years.
- Explore ICMA-RC's Retirement Health Savings (RHS) Employer Investment Program for investing funds dedicated to LEOFF I long-term care and other medical costs.

## 2011-2012 Budget Impact

Description	2010		2011	2012
	2009	Actual	Forecast	Budget
Retiree Medical Premiums	\$ 427,975	\$ 493,000	\$ 503,300	\$ 553,700
Retiree Direct Medial Reimbursements	30,771	25,200	34,570	36,295
Actuarial Study	-	-	25,000	-
<b>Total General Fund Expenditures</b>	<b>\$ 458,745</b>	<b>\$ 518,200</b>	<b>\$ 562,870</b>	<b>\$ 589,995</b>

# Budget Policies

# Long-Term Compensation Strategy

## Background

This management and budget policy recognizes the significance of the fact that approximately 70% of the City's operating expenditures are 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 management and 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 2011-2012*.

## 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 market analysis, we choose organizations based on population (20,000-75,000), Puget Sound location (including King and Snohomish Counties and excluding Pierce, Thurston, and Kitsap Counties), sales tax per capita (\$100-\$400), number of employees (150-600), 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 do not exceed an amount equal to the 75<sup>th</sup> percentile 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 extensive on-the-job training to be hired at 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:

## Budget Policies

1. Incentive to recognize work quality and/or quantity, either for exceptional performance, customer service, creating efficiencies, or team performance.
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. The budgeted funding for awards does not exceed 1.5% of the amount of salaries for all non-represented employees.
2. Performance awards are considered on an annual basis.

### **Budget Policies for 2011-2012**

- Over the next two years, the economic climate requires that we attempt to negotiate collective bargaining agreements that reduce the fiscal strain on the City's 2011-2012 and subsequent budgets. All bargaining groups (Police, Police Support, Fire and AFSCME) will negotiate new or successor agreements during the 2011-2012 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, health benefit cost trends).
- Maintain the City's commitment to high standards of employee performance evaluation by continuing to track and report employee performance.
- Freeze market based adjustments over the next two years for general employees and represented employees when possible.

### **2011-2012 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, *levied* (regular) and *voter approved*. The *levied* portion may be used for any purpose that the City deems necessary. On Mercer Island, as in most cities, the property tax levy supports the General Fund, which funds most of the general operations of the City. *Voter approved* taxes are for specific purposes, such as the purchase of parks. These taxes have been specifically identified in an ordinance and voted on by the residents.

The total property tax bill that a resident pays consists of not only the city levied and voter approved portions but also the property taxes that other jurisdictions levy on the residents. The Mercer Island portion of the property tax bill has decreased gradually as a percentage of the tax bill from 17.1% of the total property tax bill in 2001 to 15.4% in 2010.

There are 9 jurisdictions that have taxing authority on Mercer Island. The largest two are taxes in support of schools – amounting to 54.3% of the tax bill. In 2010, the State School Fund’s and the Mercer Island School District’s collections amounted to 28.5% and 25.8% respectively. King County is the next largest taxing jurisdiction, receiving 16.5% of the property tax bill. The King County Library District, the Emergency Medical Services Levy, the Port of Seattle, and the Flood Zone and Ferry Districts receive the remainder of the taxes, which collectively amount to 13.8% of the property tax bill. Below is a table of the taxing jurisdictions and the percentage of each tax dollar that they received in each year for the period 2001-2010.

Taxing Jurisdiction	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
State School Fund	32.9%	33.8%	32.5%	31.3%	31.2%	30.7%	30.9%	29.8%	28.6%	28.5%
MI School District	24.1%	23.6%	25.9%	24.9%	24.6%	24.8%	23.1%	22.1%	26.3%	25.8%
King County	17.1%	16.4%	15.1%	16.2%	16.1%	16.3%	17.2%	16.9%	15.9%	16.5%
City of Mercer Island	17.1%	16.0%	15.3%	16.4%	16.8%	16.6%	16.7%	15.9%	14.6%	15.4%
King County Library	5.0%	5.1%	5.6%	5.6%	5.6%	6.0%	6.2%	5.8%	5.7%	5.9%
EMS (emergency svcs)	2.6%	2.8%	2.7%	2.7%	2.7%	2.7%	2.8%	4.2%	2.9%	3.8%
Port of Seattle	2.0%	2.1%	2.9%	2.9%	2.9%	2.9%	3.1%	3.1%	4.0%	2.8%
Flood Zone	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.4%	1.3%	1.3%
Ferry District	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.8%	0.7%	0.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Below is a breakdown of the 2010 levy rates and the corresponding dollar amounts due to each taxing jurisdiction based on a \$1.0 million Mercer Island home.

# Budget Policies

Taxing Jurisdiction	2010 Levy Rate	2010 Levy Amount	% of Total in 2010
State School Fund	\$2.22253	\$2,223	28.5%
MI School District	\$2.01025	\$2,010	25.8%
King County	\$1.28499	\$1,285	16.5%
City of Mercer Island	\$1.20135	\$1,201	15.4%
King County Library	\$.46088	\$461	5.9%
EMS (emergency services)	\$.30000	\$300	3.8%
Port of Seattle	\$.21597	\$216	2.8%
Flood Zone	\$.10514	\$105	1.3%
Ferry District	\$.00348	\$3	0.0%
<b>Total</b>	<b>\$7.80459</b>	<b>\$7,805</b>	<b>100.0%</b>

## 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, this 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 *lesser of 106% or the rate of inflation, whichever was less*. In 2001, Initiative 747 passed in the State 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 the statutes. 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 (CPI), which most cities, including Mercer Island, have used for many years as the measure of inflation to increase employee wages. The wage contracts specify the CPI to be used as the wage adjuster. The two indexes, IPD and CPI, 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. Considering that the CPI for the Seattle metro area is used in the City's labor contracts and that the cost of salaries in the General Fund account for 52% of the General Fund budget, the CPI is the most relevant measure of inflation. In addition, almost every city in the Puget Sound

region uses the CPI in its labor contracts. The Council reached its “inflation” goal in 1999. Since 2001, the Council has normally followed the State law and increased taxes by 1%. However, in 2002, 2005, 2006, and 2007, the Council decreased property taxes by paying for some voted debt out of reserves. For the 2010 levy, the Council opted for a 0% increase due a negative IPD.

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.

### ***Property Tax Factors***

The General Fund has always relied heavily on the property tax, which accounts for 42% of General Fund budgeted revenues in 2010. Because Mercer Island is primarily a residential community with modest business growth to support the City revenue base, the property tax is the most stable, predictable, and largest of all City revenues. Mercer Island is unlike other Eastside cities that are supported heavily by sales taxes. For example, in Redmond, Kirkland, and Bellevue, property tax comprises less than 20% of the total revenue base.

### ***Effect of Increases on Taxpayers and City***

One of the questions that must be considered in any discussion of the property tax is the effect on both the taxpayer and the City with a 1% tax increase. For example, a 1% increase in the City's 2011 property tax levy, if approved, would generate \$104,650 in total new revenue for the City, which corresponds to a \$12.00 annual increase on a \$1.0 million home.

### ***Regular Property Tax Annual Amount***

Under normal circumstances, the City will plan to take the full 1% property tax increase to preserve the financial well-being of the City and to protect the property tax base for the future. Given that the long-term annual rate of inflation is 3.0-3.5% and that employee salaries and benefits (which make up 70% of the General Fund budget) typically increase 5.0-6.0% annually, excluding the current recession, this means that the City will become increasingly more reliant on other revenues—namely, sales tax, utility tax, and charges for services—to make up the difference. If the cost of services can be financed without an increase in property taxes, the Council will consider forestalling the annual 1% increase allowed under state law.

### ***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 Assessors Office keeps track of the banked capacity for each jurisdiction. In 2008, the Council opted to use 0.65% banked capacity (or \$57,900), in addition to the 1% optional increase, to help fund the fire apparatus replacement reserve on an ongoing basis. As of December 2010, Mercer Island's banked capacity equals about \$156,000.

# Budget Policies

## Voted Tax Increases for Maintenance and Operations

The Council will determine an appropriate level of service for the Island as part of the 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 the services cannot be supported by the forecasted revenues with a 1% 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) but rejected the companion \$12.0 million Parks Bond measure. As a result, the City Council opted to levy only \$772,000 of the \$900,000 lid lift in 2009, backing out \$128,000 in maintenance and operations costs related to the parks capital projects in the bond measure that failed. To avoid double collecting on two levy lid lifts with overlapping purposes, the City Council decided to levy only \$110,000 of the \$499,349 allowable in 2009 for small capital projects under the Luther Burbank Park lid lift, which ended on December 31, 2009. In 2010, the Council levied the same amount that was levied in total in 2009 (i.e. \$882,000).

## King County Parks Levy

A portion of this six year levy, which voters passed in 2007, 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 2011-2012

- Each year, the regular property tax levy is reviewed by the City Council to determine the appropriate level of funding given current economic conditions, the fiscal health of the City, and the six-year financial forecast for the General Fund. Due to the projected General Fund revenue shortfall in 2011-2012, the City Manager’s Preliminary 2011-2012 Budget included a 1% optional increase for 2011 and 2012. On December 6, 2010, the City Council opted to not take the 1% optional increase in 2011. Taken together, new construction and the refund levy, which aren’t subject to the 1% limitation, amount to \$99,011 in 2011 and are estimated to be \$100,000 in 2012.
- The 2008 Parks Maintenance and Operations levy lid lift included a 1% optional increase for 2011 and 2012 in the City Manager’s Preliminary 2011-2012 Budget. As noted above, the Council opted to not take the 1% optional increase in 2011. As a result, the budgeted levy lid lift amount in 2011 and 2012 is \$882,000 (same as 2010 levy) and \$890,820 (\$882,000 + 1%) respectively.
- There is no excess levy (i.e. voter approved debt) in 2011-2012.
- The City anticipates receiving \$72,500 in 2011 and 2012 from the 2007 King County Parks levy.

## 2011-2012 Budget Impact

Revenues	2009 Actual	2010 Forecast	2011 Budget	2012 Budget
City’s Regular Levy (general purpose)	\$9,199,225	\$9,434,568	\$9,533,579	\$9,728,915
City’s Regular Levy (fire truck replacement)	148,446	148,446	148,446	149,930
2003 Luther Burbank M&O Levy Lid Lift	110,000	0	0	0
2008 Parks M&O Levy Lid Lift	760,163	882,000	882,000	890,820
<b>Total Levied by City</b>	<b>\$10,217,834</b>	<b>\$10,465,014</b>	<b>\$10,564,025</b>	<b>\$10,769,665</b>
2007 King County Parks Levy	\$82,202	\$72,500	\$72,500	\$72,500
<b>Total Revenues to City</b>	<b>\$10,300,036</b>	<b>\$10,537,514</b>	<b>\$10,636,525</b>	<b>\$10,842,165</b>

# 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 our own City 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 another budget policy for the Capital Improvement Program, funding for the CFP portion of the capital budget will generally be decided simultaneously with the approval of the project. As opposed to the Capital Reinvestment Plan, which is financed on a "pay-as-you-go" basis out of existing revenue sources, the projects in the CFP have been financed through a bond issue, special grant, or a source of revenue that is outside the cash resources of the City.

During past years, better than forecasted sales tax revenues have allowed the Council to establish a Capital Reserve Fund where such revenues have been held for future projects and as a contingency reserve to stabilize real estate excise tax receipts, if needed, or to cover unanticipated project cost increases. This policy has allowed the Council to take advantage of the benefits of robust economic times and over time accumulate funds for these purposes.

## Budget Policies for 2011-2012

- Maintain a Capital Reserve Fund to accumulate funds to finance eligible capital facilities projects consistent with the City's overall Capital Improvement Plan. Such projects would include construction of new public buildings, major reconstruction of a public building or park, or acquisition of a new open space or park.
- Per the Council's direction, \$100,000 will be transferred from the Capital Improvement Fund to the Capital Reserve Fund in 2011. This was made possible by the Council's decision to reduce the proposed 2011 budget for the Minor Park Improvements project from \$108,000 to \$8,000.
- The Council will have the opportunity to build 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 and the Capital Improvement Fund.

# Budget Policies

## 2011-2012 Budget Impact

Description	2009 Actual	2010 Forecast	2011 Budget	2012 Budget
<b>RESOURCES</b>				
<b>Budgeted</b>				
Beginning Fund Balance	\$ -	\$ 1,035,000	\$ -	\$ -
Interfund Transfer	-	-	100,000	-
<b>Total Budgeted Resources</b>	<b>\$ -</b>	<b>\$ 1,035,000</b>	<b>\$ 100,000</b>	<b>\$ -</b>
<b>Not Budgeted</b>				
Beginning Fund Balance (Reserved)	1,579,380	34,999	34,999	134,999
<b>TOTAL RESOURCES</b>	<b>\$ 1,579,380</b>	<b>\$ 1,069,999</b>	<b>\$ 134,999</b>	<b>\$ 134,999</b>
<b>USES</b>				
<b>Budgeted</b>				
I-90 Lobbyist	\$ -	\$ 35,000	\$ -	\$ -
Boys & Girls Club	-	1,000,000	-	-
Interfund Transfer	509,381	-	-	-
<b>Total Budgeted Expenditures</b>	<b>\$ 509,381</b>	<b>\$ 1,035,000</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Not Budgeted</b>				
Ending Fund Balance	1,069,999	34,999	134,999	134,999
<b>TOTAL USES</b>	<b>\$ 1,579,380</b>	<b>\$ 1,069,999</b>	<b>\$ 134,999</b>	<b>\$ 134,999</b>

## 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 2011, the legal limit is \$3,183,106. The funding goal is to maintain a target balance of 10% of budgeted expenditures in the General Fund, which corresponds to \$2,277,512 based on an authorized 2011 expenditure budget of \$22,775,124. As of 12/31/10, the Contingency Fund is projected to have a balance of \$2,094,334, which equals 92% of the 2011 target balance.

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 2009, \$285,000 was used to bridge the revenue shortfall in the General Fund. In 2010, the remaining \$15,000 was used for the same purpose.

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 specified 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/or expenditure savings in the General Fund, which haven’t been committed to a specific purpose or distributed yet;
  - b) 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
  - c) Revenue stabilization reserve in the General Fund (\$300,000).

## 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; or
  - A significant portion of the revenue shortfall is deemed to be ongoing.
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/or 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 sources “a” and “b” are 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:

- a) Prior year’s revenue surplus and/or expenditure savings in the General Fund, which haven’t been committed or distributed yet; and
- b) 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 2011-2012**

- Due to the current historic low rate of return, which is projected to continue for the coming biennium, there will be no distribution of investment earnings to Contingency Fund as long as the rate of return is under 1%.
- The Finance Director recommends using no more than 50% of the 12/31/09 Contingency Fund balance to address the revenue shortfall projected through 2012, thereby leaving \$1,172,167 to address any unanticipated, significant expenditures.

- To address the projected 2011 and 2012 revenue shortfalls in the General Fund, \$545,989 is budgeted to be transferred to the General Fund. This will leave an estimated balance of \$1,548,346 in the Contingency Fund at the end of 2012, which equals 68% of the 2011 target balance.
- The Sewer Lake Line project, which received \$1.8 million in prior year General Fund revenue surplus funding, is projected to be closed out at the end of 2011 under budget by \$1.20 million. Staff will be recommending that the Council replenish the \$300,000 revenue stabilization reserve (in the General Fund) used in 2009-2010 and the Contingency Fund balance used in 2010 (which was budgeted at \$478,522, but only \$250,000 is estimated to be needed). Otherwise, the City won't be able to replenish the used balance until revenue surpluses are generated again in the General Fund.

## 2011-2012 Budget Impact

Description	2009 Actual	2010 Forecast	2011 Budget	2012 Budget
<b>RESOURCES</b>				
<b>Budgeted</b>				
Beginning Fund Balance	\$ -	\$ 478,522	\$ 130,828	\$ 415,161
Interfund Transfers - General Fund	176,500			
<b>Total Budgeted Resources</b>	<b>\$ 176,500</b>	<b>\$ 478,522</b>	<b>\$ 130,828</b>	<b>\$ 415,161</b>
<b>Not Budgeted</b>				
Beginning Fund Balance (Reserved)	2,167,835	1,865,813	1,734,985	1,319,824
<b>TOTAL RESOURCES</b>	<b>\$2,344,335</b>	<b>\$2,344,335</b>	<b>\$1,865,813</b>	<b>\$1,734,985</b>
<b>USES</b>				
<b>Budgeted</b>				
Interfund Transfers - General Fund	\$ -	\$ 477,038	\$ 130,828	\$ 415,161
Interfund Transfers - Fleet Fund	-	1,484	-	-
<b>Total Budgeted Expenditures</b>	<b>\$ -</b>	<b>\$ 478,522</b>	<b>\$ 130,828</b>	<b>\$ 415,161</b>
<b>Not Budgeted</b>				
Ending Fund Balance	2,344,335	1,865,813	1,734,985	1,319,824
<b>TOTAL USES</b>	<b>\$2,344,335</b>	<b>\$2,344,335</b>	<b>\$1,865,813</b>	<b>\$1,734,985</b>

# 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 approximately 80 other cities, the City of Mercer Island insures general liability, automobile liability, errors and omissions, police enforcement, employee administration, and advertising liability.

Each member city is insured for \$1.0 million per occurrence with no deductible and no limit in number of claims. Each city also is covered by an additional \$4 million per year for large claims. 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. The City continues to retain the first \$5,000 of property loss through its Self-Insurance Fund, which maintains a balance of at least \$100,000 to cover non-deductible losses.

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 2011-2012

- Continue to participate in the Washington Cities Insurance Authority during the 2011-2012 biennium.
- Continue to review opportunities for efficiencies and reductions in risk-based insurance costs.

### 2011-2012 Budget Impact

Expenditures	2009 Actual	2010 Forecast	2011 Budget	2012 Budget
Liability Insurance-WCIA	\$516,446	\$567,868	\$ 688,324	\$743,390
Carrier Property	88,608	91,100	92,997	94,857
Specialty Insurance	5,355	5,775	5,953	6,072
<b>Total Expenditures</b>	<b>\$610,409</b>	<b>\$664,743</b>	<b>\$787,274</b>	<b>\$844,319</b>

# Budget Policies

## Sustainability

### Background

The 2011-2012 Budget reflects the Mercer Island City Council's 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 whole of life 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 land fill

## Budget Policies

space” and set new targets for the conservation of natural resources. The Council has been clear that the 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.

The City Council’s Sustainability Work Program identifies several priorities areas that should be addressed to meet the City’s overarching goal of reducing greenhouse gas emissions by 80% from 2007 levels by 2050. In early 2007, Governor Christine Gregoire signed Executive Order 07-02 and established a similar statewide goal.

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.

### Grants

Over the past 18 months, staff has been awarded two sustainability grants funded through Federal Stimulus resources which will be managed and implemented through 2012: 1) the Energy Efficiency through Community Building grant (from the Federal Department of Energy and the Washington Department of Commerce), and 2) the Clean Cities Grant (from the Department of Energy and the Puget Sound Clean Air Agency). Both of these grants will help to fund sustainable city programs, projects and equipment. Examples of grant funded projects include:

- CCMV gym lighting retrofit
- Development Services Department Green Building Tool Kit
- Community Partnership with PSE and Green Ribbon Commission to encourage energy efficiency in residential household energy consumption
- Electric Bicycles and Hybrid Vehicles for the Police Department
- Electric utility vehicles for parks maintenance
- Electric vehicle charging stations at several community sites

The City continues to pursue local, regional, state and federal grants that will provide opportunities to support our sustainability efforts.

### Fleet

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.

An Evergreen Fleets Advisory Committee identified the attributes that define a “green fleet” and recommended a suite of policies and criteria that can be used to standardize these attributes and help fleets achieve more environmentally friendly operations. Evergreen Fleets has developed a voluntary program that is conceptually similar to the Leadership in Energy and Environmental Design (LEED)

standard for green buildings, requiring fleets to meet different levels of environmental performance to become certified as a green – or *Evergreen* – fleet.

In 2009, the City achieved a one star certification through Evergreen Fleets and was one of the first four fleets in the region to complete the certification process successfully. The City is committed to completing annual reporting that evaluates pollutant emissions and implements increasingly effective reduction strategies. The ultimate goal is to reduce air pollution in the region by meeting or exceeding Evergreen Fleets performance standards.

### **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.

### **Water Quality**

The protection of Lake Washington has long been one of the City's top priorities. The creation of the City's Stormwater Utility in the mid-1990s provided stable funding to effectively manage the Island's impact on the Lake.

### **Conserving Resources and Reducing Carbon Emissions**

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 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. Partnerships continue to be established with like-minded agencies for added motivation and mutual support.

### **Green Power**

Moving toward cleaner and more reliable 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. The City is taking advantage of the regional momentum to develop an electric vehicle infrastructure. Through the use of Federal and State grant opportunities as well as regional partnerships the city is securing the resources to site electric vehicle charging stations in the community.

## **Budget Policies for 2011-2012**

### **Grants**

- Continue to collect and report baseline and annual data required by Federal grant criteria.
- 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, will enhance our service delivery and will not add long term fiscal demands through maintenance and operation.

# Budget Policies

## Fleet

- Collect and report baseline and annual fuel use data and fleet utilization data (miles or hours).
- Implement policies and procedures in the City's Evergreen Fleet Work Plan.
- Continue acquiring hybrid and electric vehicles when they pass the test for cost effectiveness.
- Periodically evaluate opportunities for conversion to alternative fuels.
- Evaluate and acquire new efficiency technology such as idle shutdown timers when it passes the test for cost-effectiveness.

## Healthy Neighborhoods

- Develop a green building tool kit in the Development Services Department that addresses policies, process and procedures that encourages customers to seek green building techniques and provides guidance.
- 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.
- Continue to enforce 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 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 the Green Ribbon Commission efforts to motivate Mercer Island residents to engage in sustainable practices.

## Water Quality

- Continue to meet the requirements of the new federal stormwater regulations contained in the National Pollutant Discharge Elimination System (NPDES).
- Work with state and federal regulatory agencies to minimize the impact of capital improvement projects in or near Lake Washington.
- Continue to focus the Stormwater 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.
- 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 and Reducing Carbon Emissions

- Regularly tabulate carbon footprint of City operations and assure continuous reduction to meet 80% reduction goal by 2050.
- 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/education efforts.

## Budget Policies

- 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 Allied Waste to achieve the sustainability objectives identified in the City's new long-term contract with Allied, including the recycling of food waste along with yard waste and the replacement of the company's fleet with trucks operating on alternative fuels.
- 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.
- Implement a pilot project encouraging the planting of trees on private property to offset the impacts of development.
- Encourage City staff to develop innovative approaches to making sustainability a part of each work day.
- Develop a comprehensive Six Year Sustainability Plan for City Government that assigns resources to specific improvements through year 2015.

### Green Power

- Establish a percentage goal for the purchase of green power for the City's electricity needs.
- Through well-defined pilot projects, explore applications for the use of solar and other alternative energy sources in City operations.
- Install charging stations at community facilities and continue to look for opportunities to expand the number of units and locations.

### 2011-2012 Budget Impact

Expenditure	2009 Actual	2010 Forecast	2011 Budget	2012 Budget
<b>Base Budget (Operating):</b>				
Recycling Services	\$ 45,466	\$ 50,750	\$ 50,900	\$ 50,900
Water Conservation	21,774	30,000	30,000	30,000
Storm Water Operations & Maintenance	859,495	1,036,815	913,372	942,279
Urban Forest Management (Right of Way)	97,968	125,989	80,000	80,000
<b>Service Packages (2009 - 2012)</b>				
Digital Plan Review	12,700	1,700	-	-
Tree Planting Program	10,000	10,000	-	-
Resource Conservation Manager	7,000	7,420	7,000	-
Water Leak Detection Program	25,000	25,000	-	-
<b>Capital Improvement Program:</b>				
Vegetation Management	321,804	553,195	422,000	378,000
Low Impact Development Study	-	50,000	50,000	250,000
Storm Water Capital Projects	776,972	393,436	1,200,000	1,034,000
<b>Total</b>	<b>\$2,178,179</b>	<b>\$2,284,305</b>	<b>\$ 2,753,272</b>	<b>\$ 2,765,179</b>

# Budget Policies

# BUDGET POLICES

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## Utility Funds

This section includes budget polices on the following:

- Interfund Administrative Charges
- Utility Maintenance and Construction
- Utility Fiscal Policies



# Budget Policies

## Interfund Administrative 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 stormwater). In addition, building maintenance costs related to City Hall and the Maintenance Center and insurance costs (i.e. property and liability) are paid by the General Fund. In order for the utility budgets to reflect the full costs of administration, building maintenance, and insurance, an interfund transfer is made from each of the City's three Utility Funds to the General Fund. 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	2011	2012
City Attorney's Office	15.0% of budget	\$ 72,747	\$ 74,913
City Council	15.0% of budget	5,885	5,885
City Manager's Office	15.0% of budget	113,218	117,866
Finance Department	24.0% of budget	150,071	158,778
Human Resources Department	11.0% of budget	50,203	51,620
<b>Total</b>		<b>\$ 392,124</b>	<b>\$ 409,062</b>

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.

The portion of the Finance Department budget which can be attributed to the Utilities is based on the percentage of time spent by each position on a utility-related task. Three positions (Utility Billing Supervisor, Customer Service Representative, and Meter Readers) are directly allocated to the Utilities and the General Fund. The remaining four positions are allocated to the Utility Funds as follows: Finance Director (15%), Deputy Finance Director (45%), Accounting Manager (15%), and Accounts Payable Clerk (20%). The blended proportion of the Finance Department budget allocated to the Utilities collectively is 24%.

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.

These administrative costs are allocated to the Utilities as follows: Water (45%), Sewer (45%), and Stormwater (10%).

# Budget Policies

## Building Maintenance Charges

Maintenance costs for City Buildings are consolidated in one cost center within the General Fund. Building maintenance charges include a 0.5 FTE, who oversees 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 are then charged back to the Utilities based on FTE's within each building, as follows:

Facility	Building Cost	Water	Sewer	Stormwater	General Fund
Maintenance Center	\$ 91,887	32.8%	22.4%	12.0%	32.8%
City Hall	\$ 215,753	3.5%	3.5%	2.5%	90.5%

## Insurance Charges

The City is insured by Washington Cities Insurance Authority for property and liability.

Property insurance is charged based on asset value. The value of water, sewer, and stormwater assets covered under the City's insurance policy is the basis for the property insurance cost allocation. The interfund charges for 2011-2012 are as follows:

Funding Sources	Asset Value	% Allocation	Insurance 2011	Insurance 2012
Water Fund	\$ 11,129,249	19.23%	\$ 17,368	\$ 17,716
Sewer Fund	5,177,710	8.94%	8,080	8,242
Stormwater Fund	336,515	0.58%	525	536
General Fund	41,244,640	71.25%	64,367	65,653
<b>Total</b>	<b>\$ 57,888,114</b>	<b>100.00%</b>	<b>\$ 90,340</b>	<b>\$ 92,147</b>

Liability insurance was analyzed based on a 5 year rolling average of claims experience. Projected liability premiums were allocated to the Utilities based on their portion of claims paid during the preceding 5 year period (2005-2009). The charges for 2011-2012 are as follows:

Funding Sources	% Allocation	Insurance 2011	Insurance 2012
Water Fund	8.91%	\$ 61,306	\$ 66,210
Sewer Fund	12.90%	88,779	95,881
Stormwater Fund	6.91%	47,549	51,353
General Fund	71.28%	490,690	529,946
<b>Total</b>	<b>100.00%</b>	<b>\$ 688,324</b>	<b>\$ 743,390</b>

## Budget Policies for 2011-2012

- Ensure that the General Fund does not subsidize any of the City's Utilities.
- Assess interfund charges for administration, building maintenance, and insurance to each Utility in 2011 and 2012 per the allocation factors and the Preliminary Budget amounts noted above.

## Budget Policies

- Remove 2 Finance Department employees (Utility Billing Supervisor and Customer Service Representative) from the Administrative Charges and charge them directly to the Utility Funds. These positions were included in the Administrative Charges in prior years.
- Continue to exclude one additional Finance Department employee (Meter Reader) from the Administrative Charge and charge it directly to the Utility Funds.

### 2011-2012 Budget Impact

<b>Charges</b>	<b>2009 Actual</b>	<b>2010 Forecast</b>	<b>2011 Budget</b>	<b>2012 Budget</b>
Water Utility Admin & Insurance Charges	\$340,700	\$363,400	\$292,750	\$306,262
Sewer Utility Admin & Insurance Charges	\$340,700	\$363,400	\$301,430	\$316,792
Storm Water Utility Admin & Insurance	\$127,100	\$137,000	\$103,837	\$109,629
<b>Total</b>	<b>\$808,500</b>	<b>\$863,800</b>	<b>\$698,017</b>	<b>\$732,683</b>

# Budget Policies

# Utility Maintenance and Construction Policies

## 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 Capital Improvements Program (CIP) planning processes. 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 streets projects.

## Management Policies for 2011-2012

### 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. Staff has updated the 6 year plan for Sewer to include more detail on Capital Reinvestment needs for 2011-2016.

With the completion of the Sewer Lake Line Replacement Project, the focus for capital improvements will turn to repairs and replacements identified during the comprehensive video inspection of the collection system that began in 2007. The installation of at least one new access point this biennium for cleaning the Lake Line also has been ranked as a priority.

The prevention of back-ups in the sewer collection system will continue 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.

The implementation of recommendations contained in the final Sewer Lake Line Back-Up Action Plan (a study conducted in 2010) will be a top priority for the Sewer Utility. These include both operational efforts and capital improvements such as new access points to clean the Lake Line.

### Water Utility

Reinvestment in the Water Utility is guided by the Water System Plan adopted by Council in 2008.

The replacement of substandard water mains, particularly those that are undersized and do not comply with the City's fire flow policy, will continue to be a primary focus of water system capital improvements this biennium. At the current rate of funding, it is expected that it will take about 20 years to replace the substandard mains in the system.

The ability to distribute water from the Emergency Well into Island neighborhoods also will continue to expand during 2011-2012, 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, will be programmed.

# Budget Policies

## **Storm Water Utility**

Reinvestment in the Storm Water Utility is guided by the Comprehensive Basin Plan adopted by Council in 2006. In addition, period 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 expected in this biennium, planning for future basin improvements will turn to multiple smaller projects and the early stages of replacing the City's piped drainage systems.

## **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 2011-2012**

- **Water:** Continue to increase rates in order to meet the \$1.7M rate funding target for Water set in the Water System Plan. [Note: The plan sets an annual capital reinvestment of target of \$1.8M. The balance of the funding will come from connection charges, interest, and other non-rate revenues]
- **Water:** Consider the use of debt financing in order to accelerate the construction of several high priority water projects.
- **Sewer:** Increase rates in order to meet the \$900K rate funding target of the 6 year capital plan for Sewer.
- **Storm water:** Increase rates slowly in order to meet the \$1.0M rate funding target of the 6 year capital plan for Storm water.

## Utility Fiscal Policies

### Background

During 1993 the Utility Board and staff worked closely to establish financial policies to guide future rate and budget decisions. During 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 Stormwater 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 2011-2012

- Propose rates for the Utilities that reflect the financial policies adopted by the Utility Board.
- Perform annual rate studies 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.
- Work with a financial consultant to review the water rate model developed in 2006. Review customer consumption patterns, customer class allocations, and the block structure for rates.
- Work with a financial consultant to develop a new sewer rate model which will adjust for changes in customer consumption patterns.

# 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 - 75 days of operating expenses (20.5% of annual operating budget)

In 2006, the Utility Board recommended that the Operating Reserve for the Water Utility be increased from 75 to 90 days. The increase is to be funded by excess revenue in high water use years, rather than by rate increases.

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. 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 annual contributions to reserves are established:

Water      The minimum capital funding level will be based on the annual depreciation expense for water plant-in-service, adjusted to reflect replacement costs. (Replacement cost estimates are based on a "construction cost index" published by the Engineering News Record.) The annual contributions can

# Budget Policies

be reduced or eliminated once the balance in the replacement reserve is sufficient to meet the program set forth in the approved Capital Facilities Plan.

Sewer Same formula

## 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 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.

In 2006, the Utility Board recommended that a new Contingency Reserve be established for the Water Utility. This reserve would be equal to 1% of the original asset value (\$240,000 in 2006). The reserve is to be funded by excess revenue in high water use years, and not by raising rates.

## 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



# 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 facilities.

### Capital Reinvestment Program (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 2009-2014 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. In the last budget (2009-2010) the categorization by project funding status was added.

## 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 Maintenance 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 Operations Superintendent, Parks Maintenance Manager, and the Parks Arborist) and the Information and Geographic Services Team on capital project management.

## CIP Administrative Overhead Charges

Indirect staffing support of capital projects is provided by the positions listed in the table below. With the exception of the Maintenance Director, all of these positions are wholly budgeted in the General Fund. 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 following funds: Street Fund, Capital Improvement Fund, Water Fund, Sewer Fund, and Storm water 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.

Position	Interfund Charges	2011	2012
Finance Director	10% of position	18,490	19,129
Deputy Finance Director	45% of position	61,960	64,218
City Attorney	5% of position	9,079	9,393
Assistant City Attorney	5% of position	6,167	6,396
Public Information Coordinator	5% of position	5,058	5,252
Maintenance Director	10% of position	18,539	19,180
Parks and Recreation Director	15% of position	26,486	27,405
City Manager	2.5% of position	5,453	5,645
Deputy City Manager	10% of position	18,880	19,532
<b>Total</b>		<b>170,112</b>	<b>176,150</b>

## Management Policies for 2011-2012

- Increase public involvement 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 for 2011-2012

- 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.

## Budget Policies

- 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, and Finance Department will be charged to the Capital Project Funds and credited to the General Fund.

## 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.

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 2011-2012 biennium was adopted by City Council on June 7, 2010 and is included in the proposed Capital Improvement Program (see Section H of the budget). Adoption of the program also serves to implement portions of the City Comprehensive Plan (Transportation and Capital Facilities Elements).

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.

In 2011 and 2012, the City anticipates revenues of \$1.4M and \$1.6M respectively. 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.

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. The PBF Plan was reviewed and updated during the 2009-2010 biennium. The updated Plan was adopted by the City Council in June 2010.

### Budget Policies for 2011-2012

- 100% of annual fuel tax revenues will be used for pavement marking, patching, street overlays and substandard residential street upgrades.
- An annual average of \$300,000 in Real Estate Excise Tax revenue (2nd quarter-cent) is dedicated to pedestrian and bicycle facility maintenance and construction projects in 2011-2012.
- The remaining balance (\$554,000 in 2011) 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.

## Budget Policies

- The policy of maintaining street funding on an inflation adjusted basis will continue to be on hold for the 2011-2012 biennium. Funding for street maintenance and construction had been maintained on an inflation adjusted basis since 2002. Using 2002 as the revenue benchmark, funding has been benchmarked to an annual factor of inflation (the WSDOT Construction Cost Index) plus one percent. Due to the economic slowdown which started in 2007 and which is forecast to continue through 2013, Real Estate Excise Tax revenue will be split evenly between the Street Fund and the CIP Fund for the 2011-2012 biennium, as it was in the prior 2009-2010 biennium, in order to maintain reasonable levels of reinvestment in all REET funded assets (streets, parks, and buildings).

### 2011-2012 Budget Impact

Description	2009 Actual	2010 Forecast	2011 Budget	2012 Budget
<b>RESOURCES</b>				
<b>Budgeted</b>				
Beginning Fund Balance	\$ -	\$ 1,741,839	\$ -	\$ 426,502
Real Estate Excise Tax	628,940	992,500	854,375	1,089,500
Fuel Tax - City Streets	492,732	502,587	509,623	519,815
General Govt / Grants / Fines	917,848	9,143	-	-
Interfund Transfers In	147,897	-	-	-
<b>Total Budgeted Resources</b>	<b>\$2,187,417</b>	<b>\$3,246,069</b>	<b>\$1,363,998</b>	<b>\$2,035,817</b>
<b>Not Budgeted</b>				
Beginning Fund Balance (Reserved)	3,405,383	1,905,461	1,905,461	1,487,999
<b>TOTAL RESOURCES</b>	<b>\$5,592,800</b>	<b>\$5,151,530</b>	<b>\$3,269,459</b>	<b>\$3,523,816</b>
<b>USES</b>				
<b>Budgeted</b>				
Residential Street Preservation	\$ 1,462	\$ 1,121,484	\$ 480,000	\$ 471,000
Town Center Street Reconstruction	45,319	1,186,020	-	-
Arterial Street Improvements	1,069,437	208,166	170,000	1,115,000
Pedestrian & Bicycle Facilities	433,351	339,749	450,000	165,000
Other Transportation Projects	135,148	190,032	115,000	140,000
Other Transportation Activities	250,782	200,618	139,957	144,817
Interfund Transfer	10,000	-	-	-
<b>Total Budgeted Expenditures</b>	<b>\$1,945,499</b>	<b>\$3,246,069</b>	<b>\$1,354,957</b>	<b>\$2,035,817</b>
<b>Not Budgeted</b>				
Ending Fund Balance	3,647,300	1,905,461	1,914,501	1,487,999
<b>TOTAL USES</b>	<b>\$5,592,799</b>	<b>\$5,151,530</b>	<b>\$3,269,459</b>	<b>\$3,523,816</b>

## Information and Geographic Services

### Background

Local governments, like Mercer Island, are increasingly expected to provide accurate, timely and comprehensive information on services and initiatives impacting the businesses and lifestyles of their citizens. These City services and initiatives increasingly rely on technology. The City is also required to streamline business practices while adhering to complex and rapidly changing regulatory requirements. Citizens expect the City to collect and process their input and comments as well as interpret and convey information about programs, services, regulatory impacts, geographic/land features, emergency alerts and more. To do so, City staff must efficiently utilize and maintain available technologies as well as prepare for and implement new technologies.

A primary and significant City business function is communicating information—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:

- 250 telephone handsets, extensions and business lines
- 33 physical/virtual network servers
- 192 workstations servicing over 230 users
- 9 major business-specific applications as well as over 75 productivity applications
- 7 independent City facilities and associated infrastructure
- Remote network access and wireless network applications
- Over 200 Layers of Spatial Information related to City Infrastructure and Assets
- Several Websites for Public Use

This infrastructure services financial, payroll, utility billing, public safety, geographical mapping services, citizen and customer maintenance requests, internal and external websites, electronic newsletters and ListServes, 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. In addition, as one of the nine regional founding partners in the eCityGov Alliance, now a consortium of 29 member agencies, the City can capitalize on the pooling of resources and leadership skills to provide more seamless and easy to use on-line services for citizens and businesses through one website portal.

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;

## Budget Policies

- Focusing Information and Geographic Services investments on core business needs and pursuing inexpensive solutions; and
- Supporting further low-cost/high benefit development of eCityGov Alliance products and services.

### Budget Policies for 2011-2012

- Maintain City's investment in computers, servers, and printers 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.
- Increase response for public disclosure/public information through a web-based searchable public document management system for citizens and staff;
- Enhance user functionality, navigability and search capabilities by upgrading and enhancing the City's website;
- Consolidate physical server systems into virtual systems to maximize utilization of server hardware.
- Investigate methods to more efficiently disseminate critical incident and emergency information to citizens and emergency workers using the City's website and Geographic Information Systems (GIS);
- Replace antiquated computer equipment and database systems to better support rapidly changing business systems and their operating requirements;
- Conduct more accurate analysis and management of roadways and shoulders, utilities, residential and business building footprints, utilities, trees and vegetation and property line delineations by periodically updating the aerial mapping data with high accuracy (within 1 foot) color aerial photos of the Island; and
- Facilitate production of the City's budget process by updating the City's financial system to allow web-based budgeting and capital project management.

### 2011-2012 Budget Impact

Charges	2009 Actual	2010 Forecast	2011 Budget	2012 Budget
Computer and Printer Replacements	\$203,326	\$102,000	\$120,000	\$70,000
Capital Reinvestment – Technology	263,122	355,013	75,000	135,000
NORCOM Startup Fees	186,230	46,170	0	0
<b>Total</b>	<b>\$652,678</b>	<b>\$503,183</b>	<b>\$195,000</b>	<b>\$205,000</b>

## Vehicle and Equipment Replacement

### Background

The individual units of the City's fleet of vehicles and equipment are assigned to the various departments, but are accounted for in the City's Equipment Rental Fund. Based on historical, actual expenses plus overhead, operating and maintenance rates are developed biennially for each vehicle class and assessed to each department. In addition, replacement rates are developed biennially for each vehicle and piece of equipment in the fund. Separate replacement reserves have been established for the accumulation of funds to replace vehicles/equipment, fire apparatus, and emergency radios. The current fleet of vehicles and equipment stands at 150 units and has an estimated asset value of approximately \$6.7 million (based on purchase cost).

Beginning in 2009, Finance staff created a fleet replacement rate model based on cash flows, incorporating the estimated salvage or trade-in values, inflationary factors, and useful life assumptions for each individual vehicle. Inflated replacement cost estimates were then used to determine the cash outflows for the fund as a whole over a 30 year period. The cash inflow required to cover the replacement cost cash outflows became the basis for setting the annual replacement charge to the departments. The annual cash inflow (contribution) amount was allocated to the departments based on their present value percentage ownership of the fleet vehicles and equipment.

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 amounted to \$189,371 in 2009 and \$444,489 in 2010. Vehicle replacements for 2011 and 2012 are budgeted at \$912,712 and \$615,925 respectively.

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. In addition, the difference between the required annual apparatus sinking fund charge and the property tax levy is funded by interest earnings on the City's invested cash. See the Fire Apparatus Replacement Policy for more information.

### Budget Policies for 2011-2012

- The useful life of each vehicle and piece of equipment was evaluated, focusing on those that are due for replacement in 2011-2012, and extended when it was deemed prudent (i.e. low mileage or equipment hours, good condition, and low maintenance costs).

### 2011-2012 Budget Impact

Expenditures	2009 Actual	2010 Forecast	2011 Budget	2012 Budget
Vehicle Replacements	\$189,371	\$444,489	\$912,712	\$615,925
Fire Apparatus Replacements	120,421	99,580	0	0
Radio Replacements	221,032	79,968	0	0
<b>Total</b>	<b>\$530,824</b>	<b>\$624,037</b>	<b>\$912,712</b>	<b>\$615,925</b>

# Budget Policies

# BUDGET POLICES

## Development Services

This section includes budget polices on the following:

- Development Review Fees
- Transportation Management



# 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).”

The ongoing policy of the City regarding building and land use permit fees has been to move towards recovering the full cost of permitting services, establishing a goal of full cost recovery by 2011-2012. In a 2009 analysis of DSG activities, staff concluded that 63% of the entire 2008 DSG budget was covered by revenue from fees and that the rate of recovery was 94.1% for those activities clearly eligible for cost recovery.

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, Mercer Island School District planning, 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. The 2011-2012 budget assumes at least 65% of the DSG budget is eligible for cost recovery, with no more than 35% related to the general purpose of government.

The 2009 analysis resulted in small adjustments to the DSG fee schedule and also acknowledged that continuing efforts should be made to more clearly refine costs eligible for recovery, especially for the “indirect costs” for legal, facility and financial services provided by other city departments which directly support the permitting function.

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 many years to complete. Staffing and outside consultant resource levels must be carefully increased or decreased 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 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 later 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. In 2010, there are some signs for optimism. During the first half of 2010, the number of permits and the fees generated by those permits improved relative to 2009. DSG now faces the challenge of scaled back resources (workforce and outside consultants) with an increasing workload at the same time that the City’s General Fund is lagging. It is essential to maintain adequate resources to handle a forecasted

# Budget Policies

increase in permit activity during 2011-2012. 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.

In mid-2010, staff conducted a cursory review of the building permit fee methodology. Staff concluded that one aspect of the building permit fee structure warranted immediate attention. The current fee methodology assumes that the value of new residential construction is \$116 per square foot (SF). This value is then applied to the total square footage of the construction project, resulting in the calculation of the building permit fee. The value of \$116/SF is very low for residential construction on Mercer Island. The King County Assessor has declared that the 2008 Mean Assessed Value per SF for all newly built homes (built between 2000 and 2007) is \$258.20/SF. It is not uncommon for actual construction costs for new residential construction to greatly exceed \$300/SF. Staff has concluded that a modest increase of \$26.50/SF (from \$116 to \$142.50) is justified to support the current level of building permit customer service. Assuming building permit activity does not increase or decrease significantly from the first half of 2010, this increase in value/SF should yield about \$135,000 in new annual revenue in 2011-2012.

## Development Revenues & Activity

Selected Revenues	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual
Single Family – New/ Remodel	\$659,912	\$902,426	\$927,267	\$947,764	\$1,009,500
Multi-Family / Commercial	54,512	196,012	376,088	433,000	344,100
Land Use	181,423	162,340	254,029	167,000	231,600
Street Use	58,888	69,915	88,384	51,000	71,000
Storm Drainage	25,990	46,073	45,029	27,450	41,400
<b>Total Revenues</b>	<b>\$980,725</b>	<b>\$1,376,766</b>	<b>\$1,690,797</b>	<b>\$1,626,214</b>	<b>\$1,697,600</b>

Selected Revenues	2008 Actual	2009 Actual	2010 Forecast	2011 Budget	2012 Budget
Single Family – New/ Remodel	729,699	\$581,792	\$698,000	\$730,000	\$730,000
Multi-Family / Commercial	344,006	270,447	110,000	195,000	195,000
Land Use	132,222	122,487	111,000	116,000	116,000
Street Use	56,940	56,567	50,000	50,000	50,000
Storm Drainage	33,300	19,954	30,000	20,000	20,000
<b>Total Revenues</b>	<b>\$1,296,167</b>	<b>\$1,004,847</b>	<b>\$999,000</b>	<b>\$1,111,000</b>	<b>\$1,111,000</b>

Type of Work	2003 Act	2004 Act	2005 Act	2006 Act	2007 Act	2008 Act	2009 Act	2010 Est	2011 Est	2012 Est
Conditional Use Permits	2	2	6	1	3	2	0	0	0	1
Design Review-Major	11	7	5	5	9	7	9	2	3	5
Design Review-Minor	23	24	29	34	15	5	17	12	10	10
Deviations	34	43	57	42	50	27	29	30	25	28
Variances	11	14	18	5	6	2	0	1	1	1
Subdivisions / Short Plats	3	3	9	5	6	6	5	3	5	5
Lot Line Revisions	4	5	8	2	2	4	4	4	4	4
Pre-Application Meetings	109	143	149	146	146	115	91	100	100	100
New - Single Family Dwelling	31	57	66	58	56	33	12	15	18	18
Remodels - Single Family Dwelling	197	279	285	157	191	137	123	125	140	140
Demolitions - Single Family Dwelling	18	41	45	49	46	25	14	18	20	20
Commercial / Multi-Family / Other	63	89	58	13	75	40	54	40	40	40
Total Valuations (in millions)	26.7	93.5	80.1	95.9	86.3	40.2	30.9	75	30	30
Over-the-Counter	1,896	2,465	2,656	2,609	2,572	2,000	1,028	1,100	1,000	1,000
Code Enforcement Cases	138	144	191	174	173	147	110	120	130	140
Accessory Dwellings	7	6	8	7	6	3	5	3	2	2
Shoreline Permits-Other	23	18	18	23	50	31	29	25	25	25
Shoreline Substantial Development Permits	15	9	16	10	21	6	1	5	1	1
Total SEPA Reviews	41	26	39	34	43	23	24	16	16	16

## Budget Policies for 2011-2012

- Increase basis for residential permit fees from \$116/SF to \$142.50/SF.
- Growth should pay for growth. The City will seek full cost recovery for all direct permitting activity and for all appropriate indirect costs.
- 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.
- DSG's workload and resources should be carefully monitored to identify any significant changes in budget assumptions and to take prompt action during the 2011-2012 biennium if warranted.
- A careful analysis of eligible costs and fees should be conducted in 2011 to assure that the City's goal of full cost recovery for all eligible permit activities is implemented.

## 2011-2012 Budget Impact

Noted above in "Selected Revenues" tables.

# Budget Policies

## Transportation Management

### Background

#### Recent Transportation Issues

Over the last three biennia, the City Council has increasingly struggled to find policy directions and financing for a number of local transportation issues. Among recent issues are:

- Residential Street Overlays
- Arterial Street Improvements
- Bike & Pedestrian Plan Implementation
- Shoulder Improvements along the Mercer Ways
- Transit Services north-south (“Jitney” project)
- Traffic Calming – Planning & Implementation
- Transit Oriented Development Planning in the Town Center (i.e. parking)
- Island Crest Way Configuration
- Parking Along the Mercer Ways

#### Historical & Future Organization of Function

In terms of managing transportation issues, Mercer Island is rather unique in that it does not have a single “transportation department.” Instead, the City maintains a de-centralized “matrix” organizational style by spreading and coordinating transportation activities throughout various parts of the organization, including the Development Services Group (DSG), the Maintenance Department and the City Manager’s Office. In the 2009-2010 Budget, the City created a Transportation Manager position to consolidate a number of the transportation-related functions. While this consolidation had some advantages, it carried a relatively large price tag, funded mostly by the General Fund.

In the 2011-2012 Budget, the General Fund revenue contractions will require significant changes in the transportation services historically provided by the City. These changes will require that some duties and tasks be transferred and absorbed by existing City staff, and other tasks and activities will be deferred until at least the 2013-2014 Budget. There are also resource gaps that may create the need for some outside professional transportation engineering services for technical review of some large or complex development proposals.

#### Funding Trends & Opportunities

The preservation, maintenance and improvement of Mercer Island’s local transportation infrastructure are core functions of city government. Equally important are the planning, coordination and collaboration activities with Washington State Department of Transportation, Sound Transit and King County Metro regarding transportation operations, improvements and investments of regional transportation operations and investments, especially those within the I-90 corridor. With passage of Initiative 695 in 1999 and Initiative 776 in 2002, the city’s ability to fund local transportation activities has been severely constrained. The City experienced the loss of \$1.1 million in Motor Vehicle Excise Taxes and \$200,000 in King County Local Vehicle License fees as a result of the two initiatives. The loss of these dedicated sources of transportation revenue has constrained the ability of the City to fund local transportation maintenance and improvements and to provide staff to coordinate regional transportation operations and investments. This has placed greater pressure on the use of limited real estate excise taxes and gas taxes to support transportation related activities on Mercer Island. Consequently, the Council has been unable to secure funding for its various transportation priorities.

# Budget Policies

## Transportation Benefit Districts

Many cities and counties across the state have been struggling with the same kinds of 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 \$20 per vehicle and impose transportation impact fees on commercial and industrial buildings. With voter approval, a TBD may impose increases in property taxes, sales taxes, an annual fee of up to \$100 per vehicle and vehicle tolls. The governing board of a TBD may be a City Council. Cities who have established a TBD include Shoreline, Lake Forest Park, Olympia, Des Moines and Edmonds. There are 15,000 registered vehicles in the City of Mercer Island. A \$20 vehicle fee would yield about \$300,000 in annual revenue for the maintenance and improvement of Mercer Island’s transportation infrastructure.

## Budget Policies for 2011-2012

- Eliminate the Transportation Manager position, and reassign the duties as follows:
  - Neighborhood Traffic Customer Service, including traffic engineering, traffic and parking complaints, traffic counts, signal modifications, pavement markings and implementation of neighborhood traffic calming would be transferred to and absorbed by the Assistant City Engineer, Street Engineer and Streets Maintenance Manager in the Maintenance Department.
  - The design and implementation of the Pedestrian Bicycle Facilities Plan would be transferred from DSG and absorbed by the Assistant City Engineer in the Maintenance Department.
  - Annual TIP/CIP development would be absorbed by the City Engineer in the DSG.
  - Support for the Mercer Island School District Master Planning transportation element would be absorbed by the City Engineer in the DSG.
  - I-90 (R-8A/HOV and Eastlink) would be absorbed by the City Manager’s Office, with technical and policy support by the DSG.
  - Commute Trip Reduction would be absorbed by the Human Resources Department.
  - MISD/PEAK Transportation Demand Management Plan Implementation would be absorbed by the City Engineer in the DSG.
  
- Activities which would be deferred or managed on an ad hoc basis:
  - Development of a Traffic Calming Toolkit.
  - Development and implementation of the demonstration project for a Mercer Island Shuttle.
  - Pursuit of highly competitive transportation grants.
  
- Activities which would likely require some outside professional services:
  - Detailed evaluation of traffic studies and transportation impacts of large or complex development proposals to determine appropriate mitigation. This fiscal need may be filled by a more aggressive use of SEPA authority. This alternative would require developers to assist in the funding of the SEPA project analysis.
  - Management of the City Transportation Concurrency Program.
  - Any new City Council transportation initiative.

## Budget Policies

- Consider creation of a Transportation Benefit District to create a new funding source for transportation-related improvements and/or services. A \$20 per vehicle fee would generate approximately \$300,000 per year.

### 2011-2012 Budget Impact

	2009 Actual	2010 Forecast	2011 Budget	2012 Budget
<b>Revenue</b>				
Transportation Benefit District	\$ -	\$ -	\$ -	\$ -
<b>Total Revenue</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Expenditures</b>				
Transportation Manager	\$ 122,144	\$ 127,919	\$ -	\$ -
<b>Total Expenditure</b>	<b>\$ 122,144</b>	<b>\$ 127,919</b>	<b>\$ -</b>	<b>\$ -</b>

# Budget Policies

# BUDGET POLICES

## Parks and Recreation

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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

### Background

In 1992, 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 and incrementally returned to the City for community use and maintenance. By 1998, all the agreed-upon property landscaped by WSDOT, totaling 80 acres, had been turned back to the City. The following chart illustrates the transition:

Year	City Owned	WSDOT Owned	Total Owned	Revenue	Expenses
1992	0	8.6	8.6	\$41,323	Not Tracked
1993	0	8.6	8.6	\$51,372	\$43,507
1994	11.3	15.7	27.0	\$52,117	\$86,934
1995	11.3	15.7	27.0	\$101,348	\$151,868
1996	25.6	52.4	78.0	\$136,816	\$175,000
1997	25.6	52.4	78.0	\$343,159	\$295,322
1998	25.6	53.9	79.5	\$331,234	\$334,396
1999	25.6	53.9	79.5	\$331,387	\$324,331
2000	25.6	53.9	79.5	\$341,200	\$342,485
2001	25.6	53.9	79.5	\$353,894	\$328,201
2002	25.6	53.9	79.5	\$366,802	\$356,356
2003	25.6	53.9	79.5	\$373,932	\$413,081
2004	25.6	53.9	79.5	\$386,052	\$421,755
2005	25.6	53.9	79.5	\$384,700	\$407,189
2006	25.6	53.15*	79.5	\$391,322	\$455,987
2007	25.6	53.15*	79.5	\$405,790	\$464,380
2008	25.6	53.15*	79.5	\$423,112	\$483,412
2009	25.6	53.9	79.5	\$443,812	\$521,482
2010	25.6	53.9	79.5	\$441,860	\$442,171

\* In Q3 and Q4 of 2006 and throughout all of 2007 and 2008, approximately .75 acres were removed from WSDOT acreage reimbursement schedule due to Era Care's Aljoia House development and construction staging.

The WSDOT owns 53.9 of those 79.5 acres and has agreed to compensate the City for maintenance costs of those 53.9 acres only. The State-owned properties are managed by the City under a lease agreement that will expire in 2034. The remaining 25.6 acres are owned by the City and were landscaped and improved by WSDOT during construction of I-90. The City receives no compensation from WSDOT for maintenance of those 25.6 acres.

## Budget Policies

Early in the negotiations, the City set the goal of maintaining all 79.5 acres of the I-90 property with the reimbursement funds for 53.9 acres from WSDOT. This goal was based on estimated cost data available at the time. Revenue from WSDOT will continue throughout the lease period and will be adjusted for inflation annually with a formula driven by the Consumer Price Index. The revenues are projected to grow at an average rate of approximately 3% annually.

In 2006, there was a reduction in the reimbursement by WSDOT for a modification to the lease agreement to account for reduced City maintenance costs associated with the construction of ERA Care Communities' Aljoya House, a senior retirement facility at 2430 76th Avenue SE and adjacent to the I-90 Park on the Lid trail. ERA Care made significant landscape improvements to a small portion of the I-90 Lid Park adjacent to the project location in the City's Town Center. WSDOT negotiated a reduction of 2.8% to one of the three maintenance agreements included in the total reimbursement to reflect the reduced maintenance burden on the City. The financial impact of this amendment to the lease agreement was a temporary reduction in payment to the City by WSDOT of approximately \$4,000 per year.

Over time maintenance costs have increased and the WSDOT lease payment is no longer enough to cover the costs for maintaining both the States and the City's portion of the I-90 corridor. As a result, Parks staff were forced to look at alternative funding sources to supplement the reimbursement the City received from the State to maintain the current level of service. The City Council ultimately 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 the shortfall. As the facility ages, Parks staff anticipate this financial trend to continue, where the costs to maintain the facility at its current level will exceed the revenue from WSDOT. It will become increasingly necessary to explore options such as recovering some maintenance costs by 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.

The current maintenance program and budget are designed to meet or exceed the level of care standards agreed to 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. During a detailed level of service presentation in 2000, the City Council agreed that the City's presentation standard for I-90 is correct. The presentation goal for the formal landscaped areas is "as new" condition. As these facilities gain in popularity and use, there will be increased costs for turf restoration, litter control, graffiti removal, plant and tree replacement, pathway overlays, etc. 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. As the facility ages, it will be necessary to address the issues of restoration of the restroom and the picnic shelter, turf renovations, irrigation infrastructure, major tree pruning, fertilizing and replacement, and pruning or removal of other vegetation that becomes overgrown.

The maintenance management strategy for the I-90 facility includes a combination of seasonal and full-time staff labor. Full time Park Maintenance staff is used for mowing, trimming, pruning, edging, and chemical applications. Seasonals are used for weeding, shrub pruning, and leaf removal. Seasonal and

## Budget Policies

full-time City staff operate and repair the irrigation system, inspect the facility, maintain ballfields and shelters for use, and provide other basic maintenance at a heightened level of supervision.

### Budget Policies for 2011-2012

- Limit the growth in expenses to operate the facility relative to the reimbursement from the State.
- Seek additional efficiencies in water and power consumption.
- Consider lowering the level of maintenance in some the I-90 facility areas only where little or no public reaction will be anticipated.

### 2011-2012 Budget Impact

	2009 Actual	2010 Forecast	2011 Budget	2012 Budget
<b>Revenues</b>				
WSDOT Revenues	443,812	444,120	447,895	451,000
Business & Occupation Taxes	77,670	98,051	42,513	46,626
<b>Total Revenue</b>	<b>\$521,482</b>	<b>\$542,171</b>	<b>\$490,408</b>	<b>\$497,626</b>
<b>Expenditures</b>				
I-90 Landscape Maintenance	521,482	542,171	490,408	497,626
<b>Total I-90 Landscape Expenditures</b>	<b>\$521,482</b>	<b>\$542,171</b>	<b>\$ 490,408</b>	<b>\$ 497,626</b>

# Budget Policies

# Luther Burbank Park Operation, Maintenance and Park Master Planning

## Transition and Start-Up Under City Ownership

Control of Luther Burbank Park passed 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.

During the initial period of transition and start up, covering 2003, \$240,000 in maintenance and operation (M&O) costs were funded from the Capital Reserve Fund, a "one-time" revenue source. The City tightly controlled costs and resisted expanding programs or maintenance until capital reserves could be replaced by a stable and ongoing revenue source. Through the first year of City operation management options and operating costs were carefully assessed under different level-of-service scenarios.

Direct experience during the first year of City operation enabled staff to more accurately estimate the costs of improvements and ongoing maintenance. Certain areas of the park required a higher level of maintenance than others and use patterns varied throughout the facility. Based on this information, Council selected modes of operation and levels of service considering Island residents' interests, the City's Park Management and Budget Policies, and other opportunities and demands on the City budget.

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 \$300,000 with an additional \$100,000 needed each year in minor capital repairs and replacements. Upon further discussion, an additional \$15,000 per year for Upper Luther Burbank Park was added for operations and maintenance. 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 Planning

In addressing the long-term plan for the park, Council directed that a sequential and thoughtful process be undertaken. Future funding for substantial capital investment in new facilities and the question of generating ongoing revenue for park maintenance and operations was to be sought only after a thorough review of private and public funding alternatives and only after Mercer Island citizens have had an opportunity to comment on a vision for the future of the park.

During its 2004 Retreat, Council considered how best to undertake planning for the future of Luther Burbank Park. Council agreed to employ the services of an outside expert to design and implement a thorough public involvement process. The goal was to engage a public involvement expert in 2004 and conduct the public process before 2006. These accomplishments would then allow the subsequent "master planning" of any desired improvements to the park to be completed in time to design, permit

## Budget Policies

and potentially construct by 2009 (when the current Luther Burbank Operations and Maintenance Levy expires).

Planning for Luther Burbank Park began in November 2004 with a Community Visioning Process which was used to gather input on the public's visions and priorities for Luther Burbank Park. To set the stage for this community effort, the City Council established a number of planning parameters that served as firm guidelines throughout the process.

### Public Involvement

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 that all Mercer Island residents can feel truly proud of.

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.
- 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.

The first phase, an inventory and analysis, assessed physical conditions of the site, as well as existing and future program opportunities. A kick-off to the master planning process occurred with a public workshop in the park where participants were asked to provide input on how the community design guidelines might be implemented. Information gathering included first hand observation, input from Park representatives, and site review with shoreline and wetlands ecologists. Included in this phase were a wetland reconnaissance, shoreline assessment, and permitting review. A series of five small group sessions were conducted regarding the Off-Leash Dog area; the Dock Area/Small Boat Facility; Shoreline Restoration; Connections to Upper Luther Burbank and Children's Opportunities in the Park. Based on this inventory and analysis, three preliminary master plan concepts were developed for the site and presented at a City Council meeting and community Town Hall for review and comment. Two additional meetings with Mercer Island teens were conducted to seek greater involvement from youth.

In the next phase, these plans were consolidated into a preferred Master Plan concept based on feedback received during the initial presentation. This preferred plan was again presented in a second Town Hall meeting and presentation to the City Council. The design was honed again to reflect these comments, resulting in a final master plan design. This master plan report includes plan graphics, description of the design elements and cost allowances for its implementation.

The master plan design has been completed to an adequate level of detail to identify proposed improvements and assign costs and priorities. More specific design remains as elements of the master plan are pursued, during which more cost details can be generated.

### **Master Plan Implementation- Preliminary 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.

Improvements to the Off Leash Area were also conducted that included non-native plant and vegetation removal, surface grading, new under drainage, added sand surfacing, wetland enhancements, landscaping improvements, new gravel and asphalt pathways, new fencing and gates, and added park furniture.

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 new 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.

# Budget Policies

## 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 such as continued Luther Burbank shoreline restoration and ballfield 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 2011-2012

- For 2011-2012, Luther Burbank Park maintenance and operations will be funded by the 2008 Parks M&O levy lid lift. Of the total levy amount in 2011 and 2012, \$366,287 and \$373,631 respectively is dedicated to Luther Burbank Park maintenance and operations. Minor capital projects at Luther Burbank Park are also funded at \$110,000 per year.
- 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 re-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 life safety by providing beach lifeguards through the summer swim season.
- Continue to support boating, sailing (*the “handkerchief fleet”*) and kayaking programs and other aquatic recreation activities at Luther Burbank Park.

## 2011-2012 Budget Impact

<b>Operations and Maintenance</b>	<b>2009 Actual</b>	<b>2010 Forecast</b>	<b>2011 Budget</b>	<b>2012 Budget</b>
<b>Revenues</b>				
Property Tax levy	\$370,000	\$370,000	\$370,000	\$378,820
<b>Total Revenue</b>	<b>\$370,000</b>	<b>\$370,000</b>	<b>\$370,000</b>	<b>\$378,820</b>
<b>Expenditures</b>				
M&O Luther Burbank	\$398,632	\$374,720	\$366,287	\$373,631
<b>Total Expenditures</b>	<b>\$398,632</b>	<b>\$374,720</b>	<b>\$366,287</b>	<b>\$373,631</b>

# 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 and sponsorships, rental and lease fees, as well as a number of independent Funds including General, Beautification, I-90 Landscape Maintenance, and the Luther Burbank Park Levy. Financing of administration and recreation services has relied on a balance between user fees/charges and contributions from the General Fund (46%-50% cost recovery), while park maintenance services have relied on contributions from all of these Funds. This financing strategy continues to guide the Department's budget development.

With an anticipated Council adoption of a revised Parks and Recreation Plan in late 2006, the Department will become eligible for State and recreation matching grants 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 the City celebrates significant milestones in opening the new Community Center at Mercer View, new open space and trail improvements and adoption of a Luther Burbank Park Master Plan, attention shifts to maintaining and preserving these assets in an economically feasible manner that can be financially and operationally sustained over time. Staff also continues to be mindful of changing community trends, with calls for more programs and services to meet preschool and senior needs, expanded beach/aquatic opportunities, acquisition and preservation of open spaces as well as more access and use of the community's ballfields and athletic venues.

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.

## Ballfield Use and Scheduling

A policy review committee, comprised of Ballfield User Group members and Parks staff, analyzed issues such as residency, field maintenance services, and seasons of play. This process resulted in a greater understanding between users and a field use policy that reflects the current culture of Mercer Island sports. Implementation of policy revisions began in 2008, with additional elements implemented in 2009. A proposed field rental fee structure will be implemented in 2010 for all ballfield user groups to help maintain and replace field turf.

The renovation of the South Mercer All Weather Field to an artificial 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 to artificial turf infields that will result in more play without the possibilities of rain-out cancellations. Fees for the newly renovated artificial turf fields at South Mercer are set and monitored in order to recover the cost of field replacement at the end of its useful life (estimated at 12 years).

## Community Center Operations

The Community Center at Mercer View has been embraced by the community and customers and has also established itself as the center of indoor recreational and meeting activity on Mercer Island. The primary function of the center is still to provide a wide range of options for the community. These options include unstructured drop-in opportunities (open gym, drop-in sports, games, library services,

## Budget Policies

fitness room/equipment, internet computer stations, game room, and lounges), meeting room availability to rent for special events and business meetings (business and community meetings, weddings, receptions, etc.), structured recreation programs and services (preschool, youth, adult, senior, arts, fitness, enrichment, social services, sports, etc.) and a host-site to numerous community events (Rotary Run, MI garage sale, Leap for Green, etc.).

During the original planning process for the new CCMV, a commitment was made to operate the new expanded facility with no more General Fund tax support than what was realized in the past—namely, \$150,000 per year adjusted annually for inflation as measured by the CPI-W for the Seattle metro area. Since then, changes to the authorized subsidy level have been driven by revenue policy decisions by the Council (e.g. establishing a reduced “Community Service” rental fee), by the expansion of operating hours, and by the need to enhance staffing to address the higher than expected facility usage. During the 2009-2010 Budget process, the authorized General Fund subsidy level was recalculated based on a Council approved level of service, resulting in an approved subsidy of \$308,000 in 2009 and \$321,600 in 2010. Adjusting for inflation, the approved subsidy for 2011 and 2012 are \$324,000 and \$329,000 respectively.

Since January 1, 2008, the CCMV has generated significant annual revenue increases with 2010 year-end projections showing a 3-year increase of 65% (or \$205,000). The 2011 and 2012 revenues are projected to be \$540,194 and \$574,694 respectively. It should be noted that due to the significant revenue growth (relative to budgeted amounts) the CCMV has consistently operated below the authorized General Fund subsidy level in 2007, 2008, and 2009, with 2010 projections on target to be below the authorized level as well. While the CCMV’s overall expenditure line is projected to increase for the 2011-2012 biennium, the revenue projections for the 2011-2012 biennium are projected to also increase at a rate to cover these increases, thereby allowing the CCMV to once again operate within the authorized General Fund Subsidy level for the 2011-2012 biennium.

With the completion of building construction in December 2005 and five (5) years of operations, staff now has a more accurate assessment of the usage and rental patterns for the Community Center at Mercer View (CCMV). The customer service, administrative and custodial staffing requirements of the Community Center to support 7 day/week operations at a level the community expects is significantly greater than originally anticipated. Staff has proposed a level of operational support that is consistent with our understanding of the community’s expectations for cost, access, convenience, cleanliness and service while complying with City business and policy requirements. Accordingly, to properly clean and maintain the CCMV within the current operating hours and at the current level of customer usage, custodial budgets need to be increased by \$32,100 in 2011 and \$34,300 in 2012. These expenditures will be fully offset by increased revenues, thereby having no impact on the authorized subsidy level. Also, as the CCMV enters its 6<sup>th</sup> year of operation, a sinking fund needs to be established to fund the replacement of CCMV furnishings and equipment. To this end, an annual contribution of \$31,000 will be made from the CCMV’s operating budget in the General Fund to the Technology & Equipment Fund in 2011 and 2012. Again, these expenditures will be fully offset by increased revenues.

## Department Fees and Cost Recovery

The Parks and Recreation Department collects a variety of fees and charges for its services to reduce its reliance on subsidies from the General Fund. A cost of service and fee analysis was conducted in 2007 to determine the current cost recovery of its recreation programs, ballfield and picnic rentals, special event permit fees, and community center operations and to identify potential fee adjustments to reflect its cost recovery goals and policies. The full recreation, administration, forestry, ballfield and community center user fee cost recovery is 50%, a level consistent over the past 5 biennia.

In addition, a comparison of select recreation fees and community center rates was conducted 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 assessing the reasonableness of the current Mercer Island fees. The comparison also serves as a benchmark for how cost effectively the city provides its services. The cities of 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; and
- Adult sports leagues shall be greater than youth sports leagues.

Increases in labor, utilities and re-allocation of information technology costs have created significant challenges in controlling Department expenditure growth. In addition, the customer service, administrative and custodial staffing requirements of the Community Center to support 7 day/week operations at a level the community expects is significantly greater than originally anticipated. Staff has proposed a level of operational support that is consistent with our understanding of the community’s expectations for cost, access, convenience, cleanliness and service while complying with City business and policy requirements.

Cost recovery continues to be a top priority, and as a result of the recently completed fee study, fees and charges are budgeted to rise in 2011. Selected highlights of fee increases and operational adjustments that are anticipated to generate additional revenues include:

- **CCMV:** In 2010, staff has continued to adjust rental rates and fees to attain consistency and parity among all rental rates, adjusted room usage scheduling to create more efficient usage of existing rental inventory, and withheld deposits when rentals exceed contracted times and/or create additional hard costs for the CCMV operating budget. Also, a successful focus has been placed on marketing the CCMV to minimize the net subsidy needed as evidenced by current revenue trends. Another rate analysis will be performed internally to ensure current rates are at or near fair market value and are consistently applied within each category. Several rate adjustments are anticipated in the new biennium.
- **Facility scheduling:** A \$4 surcharge will be applied to all facility and ballfield bookings to recover more of the costs associated with scheduling District and City facilities, including the Community Center at Mercer View.
- **Ballfields:** A proposal to introduce field rental fees for Ballfield User Group members that will help maintain ballfields.
- **I-90 Boat Launch:** A proposal to increase parking fees from \$9 to \$11.
- **Special Event Permits:** Adjusted fee allocation and structure for non-City sponsored special events in parks (picnics, weddings, rally’s, demonstrations, athletic competitions, etc.), increased extra charges for after hours staffing, and streamlined minimum rental periods.

These and other collective efforts will assist the Department in more efficiently performing core functions and recover a greater percentage of costs.

# Budget Policies

## Budget Policies for 2011-2012

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 while considering community wide vs. special benefit, effects of pricing on service demand and feasibility of collection and recovery.
- Cost recovery levels for adults shall be greater than youth and seniors, and youth programs shall recover more than senior programs and Adult sports leagues shall recover a higher level of costs than youth sports leagues.
- Implement a non-resident fee for recreation classes and programs which will be higher than the resident fee.
- Continue to refine the existing rental fee pricing for residents and non-residents, island based community groups, off-island community groups, and at the Community Center at Mercer View.
- Pursue greater parity regarding cost recovery within each rentals fee categories.
- Meet Community Center facility rental revenue projections of \$540,194 in 2011 and \$574,694 in 2012.
- Operate the CCMV within the General Fund subsidy of \$324,000 and \$329,000 in 2011 and 2012 respectively.
- Maintain consistent Community Center staff coverage (2 customer service staff per shift) for established operating hours of 106 per week, as well as adequate back office staffing levels to efficiently and effectively manage the CCMV's overall business and operational needs.

## 2011-2012 Budget Impact

<b>Expenditures</b>	<b>2009 Actual</b>	<b>2010 Forecast</b>	<b>2011 Budget</b>	<b>2012 Budget</b>
Parks Administration, Recreation & Special Programs, CCMV, Arts and Special Events	\$2,407,078	\$2,680,101	\$2,471,843	\$2,503,873

  

<b>Revenues</b>	<b>2009 Actual</b>	<b>2010 Forecast</b>	<b>2011 Budget</b>	<b>2012 Budget</b>
User Fees	\$1,131,816	\$1,085,315	\$1,198,167	\$1,226,951
<b>User Fee Cost Recovery</b>	<b>47.0%</b>	<b>40.5%</b>	<b>48.5%</b>	<b>49.0%</b>

## Trees and Urban Forest Lands

### 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 470 acres of City and State-owned parks and open space lands. This acreage comprises about 12% of the Island. Eight City parks are equal to or larger than 10 acres. Two parks exceed 70 acres (Luther Burbank Park and Pioneer Park). On a per capita basis, Islanders enjoy 21 acres of publicly owned park and open space land per 1,000 population. This compares with neighboring jurisdictions as follows: Bellevue - 20.6 acres/1,000 pop.; Kent - 16.8 acres/1,000 pop.; Redmond, - 22 acres/1,000 pop.; Kirkland - 11.1 acres/1,000 pop. In addition to City park lands, approximately two-thirds of the Mercer Island School District grounds are available to Island residents. And, an additional 40 acres of private open space tracts are available for residents of many subdivisions on the Island. The Island's public right of way (ROW) supports a large number of trails and substantial amount of tree canopy. Nearly 20% of the Island is ROW.

The 2007 Mercer Island Parks and Recreation Plan identifies several objectives that pertain to trees and open space. These objectives are:

**Goal 2: Provide a system of attractive, safe, and functional parks, and park facilities (partial list).**

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

**Goal 3: Preserve natural and developed open space environments and trails for the benefit of all existing and future generations.**

- a) Promptly investigate open space acquisition opportunities as they become available;
- b) Pursue fee simple purchase, transfer of development rights, conservation easements or other preservation and land use mechanisms that would:
  - a. enable acquisition of properties where development would create severe hazards to public health/safety;
  - b. provide a buffer between incompatible land uses
  - c. protect ravines and watercourse corridors
  - d. preserve lands adjacent to or visually accessible from arterials
  - e. expand existing parks and open spaces or add to an activity node

## Budget Policies

- f. parcel size should be one acre or larger
- c) Open space land should offer identifiable benefits to the community that extend beyond adjacent private properties;
- d) Property should not present conspicuous liability risk unless appropriate mitigation can be pursued;
- e) Provide trails that are safe and attractive for pedestrians, bicycles and equestrians and
  - a. complete and expand the pedestrian, equestrian and bicycle circulation system by acquiring rights-of-way as necessary and appropriate for trails;
  - b. Increase the visibility and accessibility of the bicycle, pedestrian and equestrian circulation system;
  - c. Develop trail systems within existing open space properties to provide maintenance and recreational access;
  - d. enable continuous linkages between employment, transit, schools, parks, neighborhoods, churches/synagogues and community facilities;

**Goal 5: Secure maintenance funding at a level necessary to sustain and enhance parks, trails and open space.**

- a) Develop and update long term plans for maintaining parks, trails and open space;
- b) 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;

**Goal 7: Pursue state and federal grant funding for parks and open space improvements.**

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

## 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 has been implemented as a capital program in 2005 -2006 biennial budgets and has continued through the current, 2009-2010 biennial budget.

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 new 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.

## Budget Polices for 2011-2012

- 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 funding implementation of projects contained in the Pioneer Park Forest Management Plan.
- Continue to fund a half-time Arborist position for 2009–2010 to support Development Services land use and regulatory functions. Also continue the half-time Parks Natural Resources Coordinator and Parks Natural Resources Specialist positions that provides staff support to the Open Space Conservancy Trust and supports tree and urban forest management in public open spaces and parks. 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 2007-2008 levels. Fund contractual services for removal of identified tree liabilities in parks and other open spaces.
- Maintain heightened park maintenance service levels of master planned capital improvements to Pioneer Park, including trail grooming, brushing, invasive plant removal, re-vegetation, vegetation control, and park furniture maintenance.
- Continue tree care and vegetation improvement projects in Luther Burbank Park consistent with ongoing levy and CIP funding support.
- Expand availability of current public education programs (Basin 29 workshops, WSU training opportunities, EarthCorps/Mountains to Sound Greenway volunteer service learning) to enable property owners to implement best environmental practices on private open space properties.
- Seek grant funding opportunities to further refine the Urban Tree Canopy Assessment that was completed in early 2010. This Assessment is the first phase of what is envisioned to be a long-term effort.

## 2011-2012 Budget Impact

Expenditures (\$1,000's)	2009 Actual	2010 Forecast	2011 Budget	2012 Budget
<b>General Fund</b>				
Arborist – plan review and permitting	\$ 47	\$ 51	\$50	\$51
Parks Natural Resources Coordinator	44	45	48	50
<b>Total General Fund</b>	<b>\$91</b>	<b>\$96</b>	<b>\$98</b>	<b>\$101</b>
Right-of-Way tree program	98	126	80	80
<b>Total Street Fund</b>	<b>\$98</b>	<b>\$126</b>	<b>\$80</b>	<b>\$80</b>
<b>Capital Improvement Fund</b>				
Parks Open Space and Vegetation Management	322	553	422	378
<b>Total Capital Improvement Fund</b>	<b>\$322</b>	<b>\$553</b>	<b>\$422</b>	<b>\$378</b>
<b>Total Expenditures</b>	<b>\$511</b>	<b>\$775</b>	<b>\$600</b>	<b>\$559</b>

# Budget Policies

# BUDGET POLICES

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## Public Safety

This section includes budget polices on the following:

- Criminal Justice Fund
- Fire Apparatus Replacement
- Fire Prevention
- Jail Services
- Municipal Court
- Police and Fire Dispatching
- Public Safety Education / Emergency Management



# 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 expenditures.

The Criminal Justice Fund was originally funded 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 receives 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 (1/10<sup>th</sup> of 1%). This sales tax revenue was approved by the voters in King County in 1992. The fund also receives an annual reimbursement from the Mercer Island School District to help fund the School Resource Officer.

In recent years Mercer Island has received approximately \$500,000 per year from this sales tax source. However, given the current economic recession, sales tax revenues have been lower than anticipated. This has resulted in a reduction of approximately \$100,000 in revenue for the Criminal Justice fund.

The fund continues to sustain some very important programs within the Police Department. The fund will continue to support the "Hire Ahead" program, which has historically funded two officers (we will freeze one of these positions for this biennium). It will also support the School Resource Officer who works very closely with the School District, Youth and Family Services, and the Juvenile Court system. The Police Support Officer is also supported by this fund, and this program addresses parking enforcement, leash law enforcement /education, and prisoner transportation. The fund also sustains our Department's Bike Patrol Team, Special Operations Team, our training program, computer replacements, and capital equipment purchases.

### Budget Policies for 2011-2012

- Continually monitor the expenditures and revenues in this fund to help assure that the fund maintains a positive balance.
- Temporarily freeze one "Hire Ahead" officer. This program typically provides two officers for Patrol, and assists in mitigating some of the staffing shortages and overtime.
- Charge police equipment to a restricted funding source within the Criminal Justice fund.
- Continue to support the School Resource Officer program with additional funding from the Mercer Island School District.
- Continue to support the Police Support Officer program.
- Continue to support the regional radio system costs which cannot be charged to the levy, such as radio maintenance and replacement costs.
- Continue to support funding for enhanced police training and equipment.

# Budget Policies

## 2011-2012 Budget Impact

Description	2009 Actual	2010 Forecast	2011 Budget	2012 Budget
<b>RESOURCES</b>				
<b>Budgeted</b>				
Beginning Fund Balance	\$ -	\$ 269,187	\$ 63,562	\$ 63,916
Washington State Sales Tax	448,547	425,000	438,000	456,000
State Shared Revenues	31,266	28,160	27,750	27,750
Intergovernmental - School Dist	18,054	18,000	18,000	18,000
Grants & Donations	215,282	9,999	-	-
Federal Equitable Share of Seizures	13,985	-	-	-
<b>Total Budgeted Resources</b>	<b>\$ 727,134</b>	<b>\$ 750,346</b>	<b>\$ 547,312</b>	<b>\$ 565,666</b>
<b>Not Budgeted</b>				
Beginning Fund Balance (Reserved)	756,202	548,270	484,708	420,792
<b>TOTAL RESOURCES</b>	<b>\$ 1,483,336</b>	<b>\$ 1,298,616</b>	<b>\$ 1,032,020</b>	<b>\$ 986,458</b>
<b>USES</b>				
<b>Budgeted</b>				
Administration	\$ 22,731	\$ 9,999	\$ -	\$ -
Police Support Officer	83,691	85,478	90,488	92,607
Computer Replacements	85,717	85,717	109,854	109,854
Regional Radio & Replacements	52,862	38,587	32,729	33,766
Special Operations/Bike Patrol	14,465	16,400	16,400	16,400
Hire Ahead Positions	54,467	188,368	91,313	97,773
School Resource Officer	108,475	120,396	107,336	115,866
Police Training	48,252	67,680	60,192	60,400
Domestic Violence	10,000	10,000	10,000	10,000
Police Equipment	29,000	29,000	29,000	29,000
Interfund Transfer	156,220	98,721	-	-
<b>Total Budgeted Expenditures</b>	<b>\$ 665,879</b>	<b>\$ 750,346</b>	<b>\$ 547,312</b>	<b>\$ 565,666</b>
<b>Not Budgeted</b>				
Ending Fund Balance	817,457	548,270	484,708	420,792
<b>TOTAL USES</b>	<b>\$ 1,483,336</b>	<b>\$ 1,298,616</b>	<b>\$ 1,032,020</b>	<b>\$ 986,458</b>

## 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.

In 2007-2008, Phase I of the apparatus replacement program was completed. This included the sale of the Fire Department's Aerial Ladder Truck, the acquisition of two new Pierce Velocity Pumpers, the acquisition of one new Pierce Mini Pumper, the sale of two of the existing Emergency One Pumpers, and the purchase of one Ford Pick-up truck.

In 2009-2010, Phase 2 of the apparatus replacement program will be completed. This includes the acquisition of one used Maxi Pumper, the sale of the remaining two Emergency One pumpers, and entering into an interlocal agreement with Eastside Fire & Rescue to share a fourth Maxi Pumper. Regarding the latter item, the Fire Department has been actively engaged with Eastside Fire & Rescue in the development of a shared reserve apparatus program. This program is based on the apparatus rotation cycle adopted by Council. The objective of the shared apparatus program is to reduce Mercer Island Fire Department's fleet of four maxi engines to three. This agreement should be in place before the end of 2010. The Fire Department will also explore the opportunity to share other similar apparatus such as command units and aid units with the goal of reducing our self reliance on a reserve pool.

### Budget Policies for 2011- 2012

- No apparatus replacements are scheduled in 2011-2012.
- Apparatus design committees will conduct analysis and design processes in 2012 for the scheduled replacement of a maxi engine and a rescue vehicle in 2013 (i.e. place manufacturing order in 2012 and take delivery in 2013).
- Continue apparatus fleet analysis, looking for opportunities to economize fleet size, such as forming partnerships with other fire agencies to share reserve pumpers.
- Continue to monitor technology development relative to sustainability.

### 2011-2012 Budget Impact

Description	2009 Actual	2010 Forecast	2011 Budget	2012 Budget
<b>Revenues:</b>				
Property Tax	\$148,446	\$148,446	\$148,446	\$149,930
Interest Earnings	46	0	0	0
Proceeds From Sale of Apparatus	5,580	0	0	0
<b>Total Revenues</b>	<b>\$154,072</b>	<b>\$148,446</b>	<b>\$148,446</b>	<b>\$149,930</b>
<b>Expenditures:</b>				
Capital Purchase	\$150,555	\$0	\$0	\$0
Capital Lease (Principal & Interest)	\$165,745	165,745	165,745	165,745
<b>Total Expenditures</b>	<b>\$316,300</b>	<b>\$165,745</b>	<b>\$165,745</b>	<b>\$165,745</b>

# Budget Policies

# Fire Prevention & Code Enforcement

## 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. Historically, Mercer Island has delivered Fire Prevention, Education & Code Enforcement services through the Fire Department and specifically the Fire Marshal position. Since 1962 Mercer Island's Fire Marshal has been a 1.0 FTE. However, after the retirement of Fire Marshal Ed McKinney in 1995, the duties and responsibilities of this position were carried out by part-time employees. The position was subsequently reaffirmed as an FTE, though the position was modified to be a contracted position instead of a permanent position. This has been the model that has been in place since 1997.

At the direction of the City Manager and as part of the budget development process, an assessment of the duties, responsibilities, and authorities of the Fire Marshal position was completed. The fundamental question that was asked was: could these responsibilities and duties be delegated to other existing positions within the City, thereby helping to reduce the City's financial liability? The assessment concluded that they could not, because there was no additional capacity in Development Services. What was recommended and incorporated into the 2011-2012 Preliminary Budget was a 0.25 FTE reduction in contracted hours (reducing the position to a 0.75 FTE).

During its 2011-2012 Budget deliberations, the Council directed staff to make additional staffing reductions beyond what had been proposed in the Preliminary Budget. As a result, the City Manager recommended eliminating the Fire Marshal position, with the plan review responsibilities being shifted to Development Services staff. The Council approved this staffing reduction.

## Budget Policies for 2011-2012

- Eliminate contract Fire Marshal position (1.0 FTE) beginning in 2011.
- Shift Fire Code plan review responsibilities to the Building Code plan reviewers in Development Services beginning in 2011. Fire Department staff will assist Development Services with operational-related issues.
- Contract out specialized Fire Code technical issues.
- If development activity increases significantly beyond what is forecast for 2011-2012, staff will return to Council asking that the position be re-instated, with the funding source being development-related revenues.

# Budget Policies

## 2011-2012 Budget Impact

Description	2009 Actual	2010 Estimate	2011 Budget	2012 Budget
<b>Revenues</b>				
Permit Fees	\$ 28,389	\$ 34,000	\$ 57,050	\$ 57,050
<b>Total Revenue</b>	<b>\$ 28,389</b>	<b>\$ 34,000</b>	<b>\$ 57,050</b>	<b>\$ 57,050</b>
<b>Expenditures</b>				
Salary and Benefits	\$ 112,799	\$ 115,317	\$ 13,576	\$ 15,500
Contract Services	-	-	18,000	19,000
Other operating costs	8,652	5,900	2,350	4,050
<b>Total Expenditure</b>	<b>\$ 121,451</b>	<b>\$ 121,217</b>	<b>\$ 33,926</b>	<b>\$ 38,550</b>

## Jail Services

### Background

Under state law, the City of Mercer Island is responsible for paying all costs associated with incarcerating offenders for violations of misdemeanor crimes. The City currently has three separate contracts for jail services which include the Yakima County jail, the Issaquah city jail, and the King County jail. The contract with the Yakima County jail is for four beds and is set to expire at the end of 2010 (we do not plan on renewing this contract). The contract with the Issaquah city jail is for two beds, which we will reduce to 1 bed beginning in 2011. We use the Issaquah jail for the majority of our misdemeanor bookings. The contract with King County does not include a bed commitment, and is for all felony bookings and for those misdemeanants who have significant medical issues that preclude them from being accepted at the Issaquah City Jail. The state pays for all felony bookings, while we pay for our misdemeanor bookings.

### Budget Policies for 2011-2012

During the 2011-2012 biennium, the City will take the following actions to best manage the City's jail costs and jail populations:

- We will not renew our contract with Yakima County for jail services.
- We will reduce our contract with Issaquah city jail from two beds to one.
- We will no longer book into jail many of our low level, low risk misdemeanor offenders.
- The City will continue to explore options for alternatives to incarceration for eligible offenders. We currently contract with the Renton Electronic Home Detention Program.

### 2011-2012 Budget Impact

Description	2009 Actual	2010 Forecast	2011 Budget	2012 Budget
<b>Revenues:</b>				
General Fund	\$155,849	\$174,000	\$54,985	\$57,695
<b>Total Revenues</b>	<b>\$155,849</b>	<b>\$174,000</b>	<b>\$54,985</b>	<b>\$57,695</b>
<b>Expenditures:</b>				
Jail Costs	\$155,849	\$174,000	\$54,985	\$57,695
<b>Total Expenditures</b>	<b>\$155,849</b>	<b>\$174,000</b>	<b>\$54,985</b>	<b>\$57,695</b>

# 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 has 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		
<b>Total</b>	<b>3,040</b>	<b>166</b>	<b>719</b>	<b>56</b>	<b>266</b>	<b>108</b>	<b>4,355</b>	<b>2.0</b>	<b>2,177.5</b>
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. Through 2009, the fines and forfeits generated by the court have been more than sufficient to cover the ongoing cost of Court operations, including the addition of another Court Clerk. In 2010, however, it is projected that the Court's expenditures will exceed its revenues by about \$63,000. This is wholly due to a significant drop in the number of case filings, which are down 3.1% in 2010 compared to 2009.

Below are the total actual new case filings for Mercer Island and Newcastle for 2008-2010.

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

# Budget Policies

## Budget Policies for 2011-2012

- The addition of a full-time Court Clerk in 2009 helped address the heavy caseload issue and court fine collection backlog which plagued the Municipal Court in 2007-2008.
- With the reduction in caseload in 2009-2010 relative to 2008 and with court revenues projected to significantly trail court expenditures in 2010 for the first time since its inception in 2005, it was determined that the Court Administrator position could be reduced to half-time in 2011-2012 with no impact on necessary reporting and accounting functions and no visible change to the public in the level of service. The Court Clerks will backfill for Court Administrator functions as needed.
- It is expected that court revenues will cover all court costs on an annual basis, which was the assumption on which the City opened its Municipal Court in January 2005.
- Continue to provide municipal court services to the City of Newcastle via the current interlocal agreement.

## 2011-2012 Budget Impact

Description	2009 Actual	2010 Forecast	2011 Budget	2012 Budget
Fines & Forfeiture Revenues	\$390,425	\$370,000	\$394,000	\$394,000
Total Court Operating Costs	\$387,813	\$433,134	\$355,073	\$367,157
Net Revenues (Costs)	\$2,612	(\$63,134)	\$38,927	\$26,843

## Police and Fire Dispatching

### Background

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 July 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 5.8% of the total costs.

NORCOM provides dispatching services for 5 Police Departments and 14 Fire Departments. They answer approximately 174,000 calls for service each year (114,000 police calls and 60,000 fire / EMS calls). Mercer Island is responsible for approximately 12,000 of the police calls, and 2,400 of the Fire / EMS calls each year.

### Budget Policies for 2011-2012

- 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.
- Continue to ensure that our Mobile Computer systems in our emergency vehicles are well maintained.
- Continue our active participation in NORCOM committees, with a particular focus on ensuring efficiencies are maximized.

### 2011-2012 Budget Impact

Expenditures	2009 Actual	2010 Forecast	2011 Budget	2012 Budget
NORCOM Police Dispatch Operating	\$357,974	\$487,578	\$407,427	\$419,650
NORCOM Fire Dispatch Operating	\$114,443	\$117,604	\$138,462	\$142,616
<b>Total Expenditures</b>	<b>\$472,417</b>	<b>\$605,182</b>	<b>\$545,889</b>	<b>\$562,266</b>

# Budget Policies

## Public Safety Education/Emergency Management

### Background

Mercer Island has had a very strong Emergency Management program, which began in 1991. The program's objective has been to help make Mercer Island a disaster resistant community. City staff, Mercer Island School District staff, and private businesses work together with volunteers from the community toward the programs objectives.

In 1995, the City hired its first full-time Emergency Preparedness Coordinator. Over the span of the next 11 years, the City employed a full-time employee to fill the role of Emergency Preparedness Coordinator. In 2006, the Fire Department assumed responsibility for the Emergency Management program, and staffed the position with a half-time Emergency Preparedness Coordinator, who was assisted by the Deputy Fire Chief. In December of 2007, the half-time Emergency Preparedness Coordinator left the City for a full-time Emergency Management position with another city. In January of 2008, responsibility for the Emergency Management program was reassigned to the Police Department, and is now staffed with a full time police officer.

Since 2008, the Emergency Preparedness Officer has completed a variety of projects and tasks to include:

- Integrating the Mercer Island Business Neighborhood Alliance (MIBNA) into the Emergency Preparedness program
- Conducting the Sound Shake '08 exercise, as well as conducting a comprehensive City staff practical exercise in 2009
- Completing necessary Emergency Operations Center (EOC) improvements
- Providing public education at such events as Summer Celebration and through community classes
- Recruiting and training community volunteers and forming action teams
- Updating Emergency Preparedness brochures and the City's Emergency Preparedness website
- Improving communication strategies with the Ham radio operators (MIRO)
- Updating the shelter program

The new 2011-2012 work plan includes four broad themes/goals which include:

1. City staff will be prepared to activate EOC and shelter facilities for any type of emergency/disaster.
2. Residents / businesses will be prepared to shelter themselves for 7-10 days.
3. Volunteers will be prepared to assist during serious incidents.
4. An effective communication model will be established between City staff and the community.

Each element of the work plan includes many projects that support the overall goal of having Mercer Island be self-sufficient during a disaster for up to 7 days. These projects include organizing and providing continual training for the Mercer Island volunteer response teams, securing generator power at the Shell gas station, purchasing new shelter containers and necessary supplies, identifying regional emergency resources, and conducting training sessions/exercises for key stakeholders.

# Budget Policies

## Budget Policies for 2011-2012

- Continue efforts with the community and businesses to be prepared for 7-10 days.
- Continue support training for City staff and community members.
- Continue to develop and support the citizen volunteer groups, the faith community and business community involvement.
- Designate and supply a south end shelter location.
- Select EOC tracking software and train City staff.
- Continue to focus on preparedness for all hazards.

## 2011-2012 Budget Impact

Description	2009 Actual	2010 Forecast	2011 Budget	2012 Budget
<b>Revenues:</b>				
General Fund	\$146,625	\$160,882	\$162,604	\$166,780
<b>Total Revenues</b>	<b>\$146,625</b>	<b>\$160,882</b>	<b>\$162,604</b>	<b>\$166,780</b>
<b>Expenditures:</b>				
Salary & Benefits	\$115,331	\$120,048	\$122,036	\$126,082
Equipment/Supplies/Community Education	31,294	40,834	40,568	40,698
<b>Total Expenditures</b>	<b>\$146,625</b>	<b>\$160,882</b>	<b>\$162,604</b>	<b>\$166,780</b>

# 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. In addition to the City's General Fund, YFS is currently financed through a variety of other sources. These include donations from community organizations, individual contributions, Thrift Shop proceeds, grants, MIYFS Foundation fundraising efforts and contributions, client fees, interest from the Endowment Fund, and an Interlocal Agreement for Services with Mercer Island School District.

This policy is intended to provide additional detail about these funding sources and provide background for the proposed 2011-2012 biennial funding changes. The department core staffing pattern will decrease by 1.0 FTE; comprise of 0.5 FTE Development Officer and 0.5 FTE VOICE Coordinator. A contract staff position continues to coordinate the Communities that Care Coalition focusing specifically on reducing underage drinking and prevention of youth at risk behavior. There are no proposed increases in the Department's level of services.

### Youth and Family Services Fund

Accounting for YFS Revenues and Expenditures are accounted for in a Special Revenue Fund "The YFS Fund (160)". The fund was created when cash balances from past donations held in Trust Funds were transferred to the new fund, 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 department programs.

### YFS 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 2010-12 biennium, \$3,500 is budgeted for 2011 and \$3,500 for 2012; these estimates are down considerably from several years prior.

### Thrift Shop Revenue

Thrift Shop (TS) revenue increased significantly in the past biennium. TS staff have increased store hours and improved store appearance, product selection and regular, early stocking. The Thrift Shop depends upon an enormous commitment of hours from volunteers. That commitment stems from the mission focus of raising revenues to pay for programs operated by YFS. The volunteer hours of community members has remained consistent. This is a change from the preceding nine or so years when the Thrift Shop experienced a decrease in the amount of volunteer hours donated by the same

## Budget Policies

number of volunteers. At that time staff hours were increased to maintain the same levels of customer service and increase the hours of operation. With the current consistent configuration of staffing, the TS increased days of operation to include Monday beginning in February of 2010. These changes, along with a focus on store improvements and the implementation updated thrift business practices saw the last two years finishing with increased revenues. The Thrift Shop brought in net revenues just over \$800,000 in 2009 and is estimated to net over 850,000 in 2010.

The proposed 2011-2012 budget for the Thrift Shop reflects a consistent use of contract and casual labor hours which allows for the hiring of skilled staff to complement and enhance the work of the volunteers. The net result has been the execution of many changes at the Thrift Shop and a marked increase in revenues.

Thrift Shop revenue supports the following priorities of the Youth and Family Services Department:

- Reimbursement of Thrift Shop expenses. This is 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 YFS programs; for the upcoming biennium the increased TS revenue will compensate for the decrease 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 City's Youth and Family Services 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 board:

- all island fund drive (conducted in the fall)
- school fund drive (conducted in the spring)
- **Giving from the Heart** breakfast, the Foundation's signature event, and
- various other smaller community based fundraising endeavors.

In 2009 the Foundation was awarded \$75,000 to establish a Youth Endowment Fund to support the work of the VOICE and SVP community service programs. The Foundation has two other Endowment Funds that receive donations for Senior Outreach and general funding. Foundation Board members manage all grant and fund drive solicitation for the MIYFS Foundation.

**On-going funding:** Each year the Foundation commits to raising a specified amount of funds for annual YFS general operating expenses. For 2009 and 2010 the Foundation was unable to meet its pledge by approximately \$40,000 as the recession severely affected the Foundation's ability to raise funds. The Foundation has established a budgeting process that will provide an estimate of financial commitment to the YFS department prior to the biennial budgeting process.

## Program Donations

The YFS Fund (160) also receives donations toward programs. Examples include donations for emergency assistance, scholarships, and donations to the Voice program. 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 2011-2012

- **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 contracts, 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. The YFS Department service configuration is determined by professional protocols for Human Service planning: regular community needs assessment, best practice research and client and professional input. The Department director presents to the City Council, through the budget approval process, the mix of services that would best serve the children, youth, families, adults and seniors of the community. The department staff and the Advisory Board will provide input to the Council through YFS Planning processes, the Council Liaison, and direct presentations to the Council.

- **Responsibility to Donors and Volunteers**

Contributions from donors shall be 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 1970s a unique partnership with community volunteers a revenue stream that allows the City to fund many YFS programs. The City committed to designate revenue raised by these volunteers (including Thrift Shop proceeds and fundraising efforts) to be used to pay for programs operated by YFS.

- **Funding Streams 2011-2012**

**General Fund Contribution:** The annual General Fund contribution for the 2011-2012 biennium will be \$320,000 per year. This represents a decrease of \$145,000 from the capped amount of \$465,000 established in 2004. In 2009, as part of the City and Department efforts to reduce General Fund expenses, the cap of \$465,000 was permanently lowered by \$25,000 to \$440,000. To further help the General Fund in 2011-2012, the General Fund subsidy will be permanently lowered by another \$80,000, which will be replaced by increased Thrift Shop sales activity, and will be temporarily (for 2011-2012 only) lowered by yet another \$40,000, which will be funded by accumulated cash in the YFS Fund. During the 2013-2014 biennial budget process, the General Fund subsidy policy will be reviewed again when City revenues are expected to be more stable.

**Mercer Island School District:** During the 2009-10 academic year the Mercer Island School District reduced its commitment to the YFS department by approximately \$130,000. The current annual pledged amount of \$60,000 no longer pays for half of the cost for six of the seven school based counselors.

# Budget Policies

## **King County Community Services Division (potential delay of a three year phase out):**

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 (2010) 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 five years, King County has been re-evaluating the YFS designation of general fund use for human services. During the last budget cycle, YFS organizations were informed that this designated funding would be phased out sometime in the near future. At the time of the 2011-12 budget development there is no final word on a specific cut to this fund though it is assumed that these funds will eventually not be available to the YFS entities.

**Diversion:** This funding of \$3,400 is slated to remain steady for the coming biennium though there will be no increase to cover any increases associated with the salary.

**Drug Free Communities Grant (DFC):** Communities That Care is a grant funded community mobilization endeavor that seeks to reduce the level of underage drinking and drug use. YFS received a five year federal grant from Drug Free Communities that began in January 2008. The associated staff and expenses for this endeavor are considered short term (through the life of the grant) and the development officer and the MIYFS Foundation have taken on the responsibility for developing the funding configuration to sustain this effort. DFC will contribute \$76,003 in funding in 2011 and \$74,794 in 2012.

- **Fundraising and MIYFS Foundation**

Since 2007 the Foundation has increased the variety of fundraising activities conducted on behalf of the department and the amount of money these events raise. In general the Foundation revenues have increased as have the variety of fundraising endeavors. During the first year of the recession the Foundation, like most entities requesting money from grant making organizations, was not invited to write grants for capital funding. At this same time, corporate sponsorship for the Foundation's signature event, the "Giving from the Heart" breakfast took a strong dip. After this initial year of the recession, the Foundation focused its 'asks' more on the local community and the actual number of donors increased though the funds remained flat.

Growth in the Foundation fund raising:

### **2005**

- All Island Fund Drive
- School Fund Drive
- Giving From The Heart Breakfast
- Annual Report –enclosed envelop, vehicle donations

### **Present**

- All Island Fund Drive
- School Fund Drive
- Giving from the Heart Breakfast (100% growth in size and revenues)*
- Annual Report –enclosed envelop, vehicle donations
- Turn-key community events
- A Taste of Yoga, Holiday Bazaar, the Pumpkin Patch, Glass Heart sales,
- Youth Development Endowment
- Endowment established 2009
- Annual summer letter campaign following summer VOICE and SVP
- Local Dollars, Local Youth* – Part of an initiative to increase the shopping of MI residents in the downtown area.

## **Developed Capacity**

Web Site – on-line donations  
Donor Appreciation Event – September/October  
Raiser’s Edge / Data Management  
Cultivation  
Planned Giving  
Board Development  
Developed Community-Partnership fundraising events that are executed by local community groups with proceeds going to YFS;  
Enhanced the existing fundraising activities – each year’s funds drive increased over the levels of the past years;  
Increased the pre-breakfast sponsorships;  
Developed a planned giving program; and  
Brought in additional grants: Rotary Foundation, Community Fund, Women’s Club.

The Foundation’s 2009-2010 actual funding of \$156,000 per year represents an increase over the past biennial commitment of \$120,300 per year. The 2011-12 pledge will remain at approximately at this level (\$183,500 for 2011 and \$157,500 for 2012). Funds will be raised through grant writing in addition to current and new fundraising efforts.

## • **YFS Fund Balance**

The YFS Fund developed a fund balance over a period of years when the Thrift Shop revenues exceeded what was needed to fund services. This fund balance is being spent down with a projected end date for use at the end of the 2011-2012 biennium.

Prior to 2004, the City’s General Fund contributed 40% of the YFS department’s budget with donations, contracts and Thrift Shop revenue making up the remaining 60%. This historical funding pattern for the department ended in 2004 when the General Fund contribution was capped at \$465,000. This was done so with the recognition that the amount and configuration of services in 2004 reflected the needs appropriate to the community. At that time the Thrift Shop revenues had been exceeding what was needed to fund up to 60% and the YFS Fund had accumulated some excess fund balance.

In 2004, to assess the expenses and revenues trends, and most importantly, to determine the year in which the revenue and expense lines would intersect, a ten year revenue-to-expense projection was developed. This would be the point at which the YFS operating fund balance would begin to be drawn down. It was projected that the fund balance would be used in the 07-08 biennium and in the 09-10 biennium.

The City’s General Fund contribution had been the department’s single largest portion of funding. While this contribution remained fixed, expenses in the following two biennium (in particular health care and IT) grew at an increasing rate. Additionally other funders reduced their funding to the department. As a result, expenses grew much faster than revenues and the projections of spending down of the reserve indicated this would occur within six to eight years.

In actuality, the reserve draw down has been slower than expected due to better than projected Thrift Shop growth and an effective effort to reduce general expenses. Fund balance use to meet budgeted expenditures in the 2011-2012 biennium will be \$103,414 in 2011 and \$150,316 in 2012.

# Budget Policies

Since 2004 the Foundation donations, Thrift Shop revenues and general donations increased steadily. Even so, these revenue sources represent only about 70% of the overall department budget. The contribution from the City's General Fund has not been adjusted since 2004. In order to keep pace with the cost of living in the coming biennia, the department and the city will eventually need to reevaluate and adjust proportionately the whole department's funding formula in order to continue to provide the full range of services to Island residents.

Current projections of fund balance use indicate that regular ongoing operations will be maintained in this biennium with a December 2012 ending fund balance of \$173,154.

## Developing and Expanding Funding Streams

### *Addressing emergent needs and serving the future community*

Given the recent shifts in funding commitments and the decreasing city general fund revenues the YFS department is exploring options for increasing future revenues to meet the on-going need for funding to local human services. To this end, two ideas will be piloted in the coming biennium and one additional funding option is in the exploration process.

1. Beginning this November the Foundation is stepping up its fundraising activities to include a month long **Local Dollars, Local Youth** campaign. This campaign is a collaborative project in partnership with local businesses to raise funds for the four largest youth serving entities on the Island: Youth and Family Services, Mercer Island Schools Foundation, Youth Theatre Northwest and the Boys and Girls Club. Shoppers at Island businesses during the month of November will be given the opportunity to add a dollar onto their bill or tab to support these four organizations that together touch the lives of every Island youth. It is too early to estimate how much money this campaign will raise. These four organizations, in conjunction with the Chamber of Commerce, are planning to have this campaign conducted each November and to grow community participation.
2. Currently the Thrift Shop is limited in its ability to raise revenue by the limitation of floor space. Projected estimates indicate that there is untapped revenue capacity with increased floor space. This autumn the Thrift Shop will explore a community partnership with a group of citizens to develop the site formerly used for recycling into a Center for Community Sustainability. The Center would incorporate several compatible ideas suggested by the community during the public input process of Winter-Spring 2010; one of which would be the processing of Thrift Shop donations.

Processing donations at the former recycling center, across from the current Thrift Shop, would allow two new sources of revenue. The first new source would come from preparing the current pass through goods for bulk resale. A conservative estimate for this annual revenue is approximately \$25,000.00. The second source of revenue would come from transforming the current donation processing space into retail space (approximately 500 square feet). Increased revenue space, along with an expansion of the current advertising campaign is conservatively estimated to net an additional \$135,000.00.

3. In addition to the above pilot projects the Department is exploring a partnership with another Eastside city to replicate the Thrift Shop model of community reuse/recycle for human services funding. A feasibility study is being conducted on placing a campus of human service providers (a sort of one stop shopping for citizens needing a host of services) near the downtown area. The YFS department is in discussions with this group to develop the infrastructure of volunteers,

donation solicitation and business operations to establish a thrift business. This endeavor would have a shared-profits formula for an on-going business arrangement or a multi-year phase out business plan. Both options would bring in revenue to the department though this is longer term project that will most likely have revenue options for the next biennium.

The YFS department and the YFS Foundation will continue to explore feasible revenue options and optimize public donations to ensure the community has needed human services.

## 2011-2012 Budget Impact

Description	2009 Actual	2010 Forecast	2011 Budget	2012 Budget
<b>RESOURCES</b>				
<b>Budgeted</b>				
Beginning Fund Balance	\$ 136,009	\$ 107,362	\$ 103,414	\$ 150,316
KC Grant Revenue	39,925	40,785	39,400	39,400
School Counselor Program Support	78,338	141,507	60,000	60,000
Thrift Shop	727,136	815,000	949,000	995,000
Program Fees & Donations	126,231	129,833	122,500	122,500
CTC Grant Funding	99,065	73,653	76,003	74,794
MIYFS Foundation Support	193,900	150,000	183,500	157,500
Interfund Transfer - YFS Endowment	3,291	3,000	3,500	3,500
Interfund Transfer - General Fund	465,000	440,000	320,000	320,000
<b>Total Budgeted Resources</b>	<b>\$1,868,895</b>	<b>\$1,901,140</b>	<b>\$1,857,317</b>	<b>\$ 1,923,010</b>
<b>Not Budgeted</b>				
Beginning Fund Balance (Reserved)	534,246	426,884	323,470	173,154
<b>TOTAL RESOURCES</b>	<b>\$2,403,141</b>	<b>\$2,328,024</b>	<b>\$2,180,787</b>	<b>\$ 2,096,164</b>
<b>USES</b>				
<b>Budgeted</b>				
YFS Administration	\$ 446,206	\$ 406,503	\$ 450,271	\$ 461,936
Thrift Shop	281,297	317,226	314,749	323,112
Diversion	15,043	15,130	15,202	15,505
School Counselor Program	435,563	485,382	412,376	428,617
Senior Outreach	77,149	76,905	79,621	82,784
VOICE Program	90,257	76,206	111,205	113,840
Jobline	37,217	34,695	36,904	38,363
Family Counseling & Assistance	259,198	261,978	260,576	268,953
Communities That Care	165,944	169,115	162,413	167,900
Interfund Transfers - CIP	61,021	58,000	14,000	22,000
<b>Total Budgeted Expenditures</b>	<b>\$1,868,895</b>	<b>\$1,901,140</b>	<b>\$1,857,317</b>	<b>\$ 1,923,010</b>
<b>Not Budgeted</b>				
Ending Fund Balance	534,246	426,884	323,470	173,154
<b>TOTAL USES</b>	<b>\$2,403,141</b>	<b>\$2,328,024</b>	<b>\$2,180,787</b>	<b>\$ 2,096,164</b>

# Budget Policies