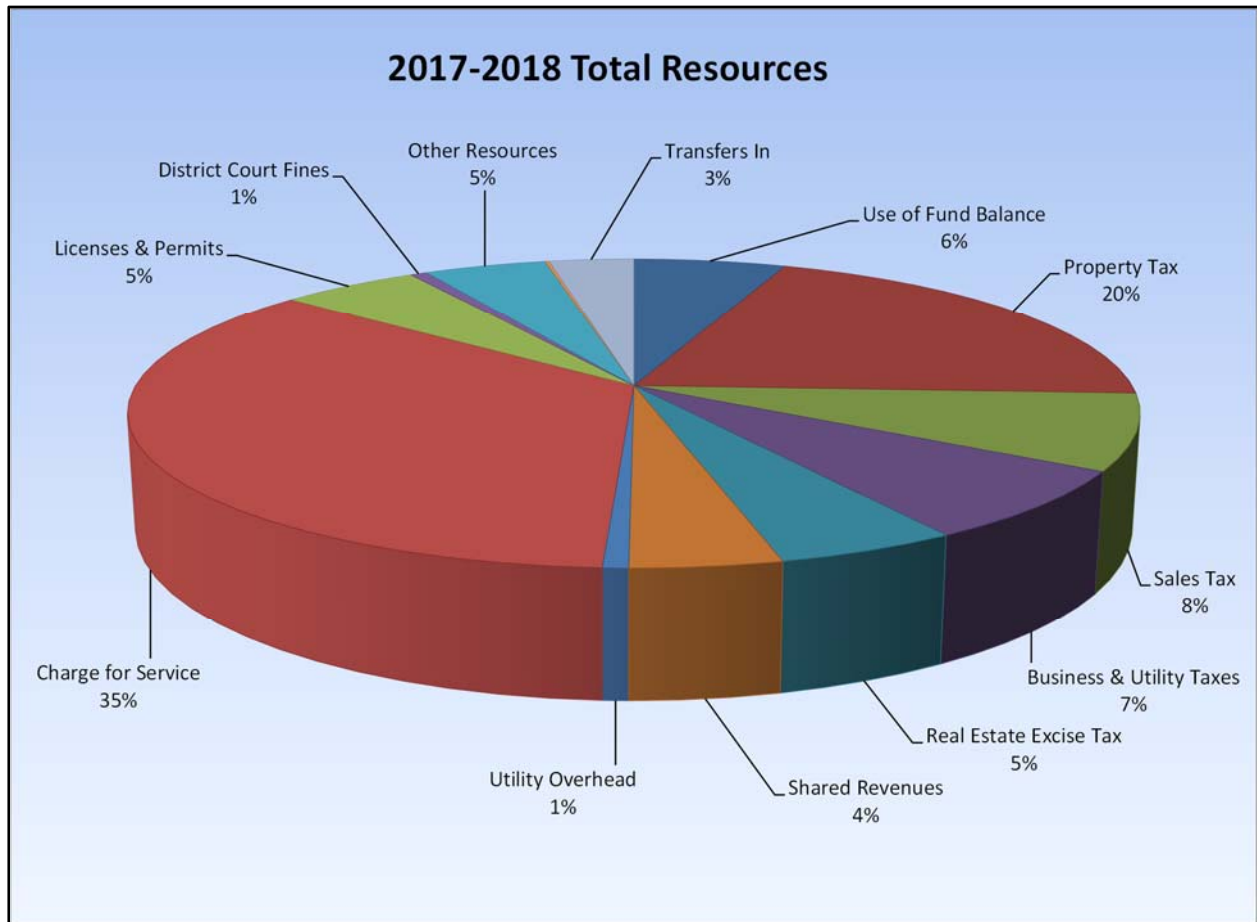
The page features a decorative border of blue puzzle pieces. The pieces are arranged in a frame around the central text, with some pieces missing, creating a sense of incompleteness or a puzzle to be solved. The pieces have a slight 3D effect with shadows.

City of Mercer Island
Section D
Major Revenues

Revenue Sources

For the 2017-2018 biennium, the City's total budgeted resources amount to \$133.6 million, which consists of \$65.9 million in 2017 and \$67.7 million in 2018. This section of the budget focuses on the City's major revenue sources, the internal and external factors that affect revenue estimates, and the 2017-2018 budget impacts.



Property Tax

Property tax is the City's single largest revenue source, accounting for 20% of total budgeted resources in 2017-2018. In the General Fund, which encompasses most of the City's general government services, property tax comprises 40% of total budgeted resources in 2017-2018.

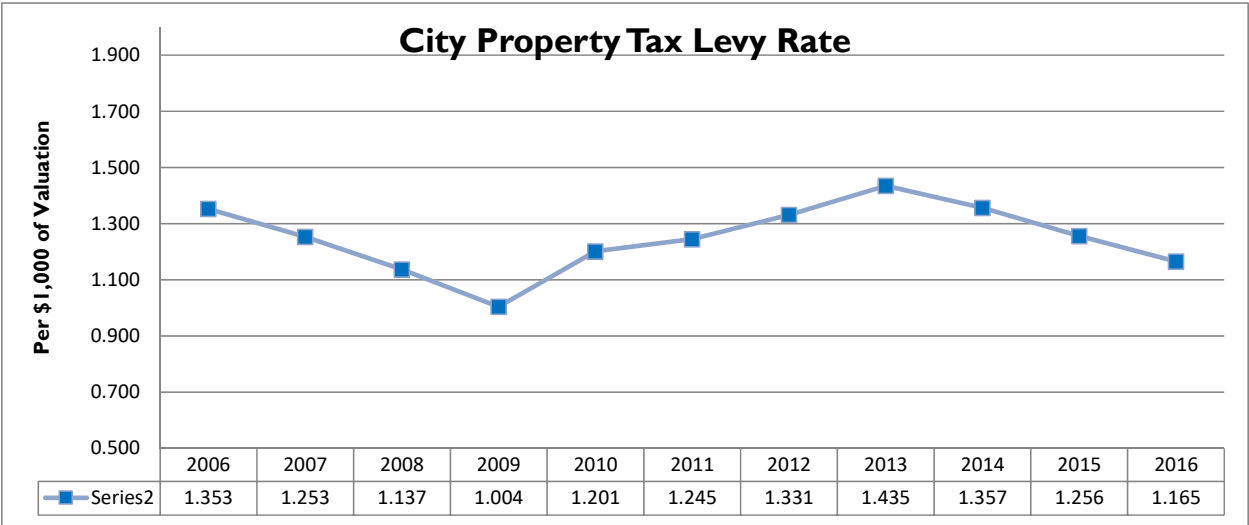
There are two types of property tax collected by the City: *regular levy* and *voter approved levy*. The *regular levy* portion may be used for any purpose that the City deems necessary. On Mercer Island, as in most cities, the *regular levy* primarily supports the General Fund. A *voter approved levy* represents a property tax increase over and above the *regular levy* and is typically authorized for a specific purpose. There are two types of *voter approved levies*: *excess levy* and *levy lid lift*. An *excess levy* is dedicated to paying the principal and interest on debt issued for capital projects or purchases. The City doesn't have any excess levies. A *levy lid lift* is usually dedicated to funding specific general government operations and/or capital improvements. The City has two *levy lid lifts* currently in effect: 1) Parks Maintenance and Operations levy approved by voters in November 2008 for 15 years (\$936,260 levy amount in 2017); and 2) Fire Station and Fire Rescue Truck levy approved by voters in November 2012 for 9 years (\$662,000 levy amount in 2017).

Revenue Sources

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

The banked capacity provision allowed under RCW 84.55.092, Protection of Future Levy Capacity, allows local taxing districts to calculate levies based on the maximum lawful levy since 1985. If a taxing district voluntarily levies less than its maximum levy amount in a prior year, it will have some banked capacity that it could use in the future. The King County Assessor’s Office keeps track of the banked capacity for each jurisdiction. In 2008, the Council opted to use 0.65% of banked capacity (or \$57,900), in addition to the 1% optional increase, to establish the fire apparatus replacement sinking fund. In 2012, the Council opted to use 0.5% of banked capacity (or \$52,820) to help reduce the unfunded liabilities related to long-term care benefits for LEOFF I retirees and pension benefits for firefighters hired on or before March 1, 1970. In 2015, the Council opted to use all of its remaining banked capacity (1.2%, or \$144,960) to address various funding needs, including long-term care benefits for LEOFF I retirees.

The property tax rate is determined by dividing the total annual levy amount by the assessed valuation per \$1,000. Mercer Island’s levy rate fluctuates based on changes in assessed valuation, taking the 1% optional increase, and voter approved levies. The City’s levy rate in 2006-2016 is displayed in the following graph.



Revenue Sources

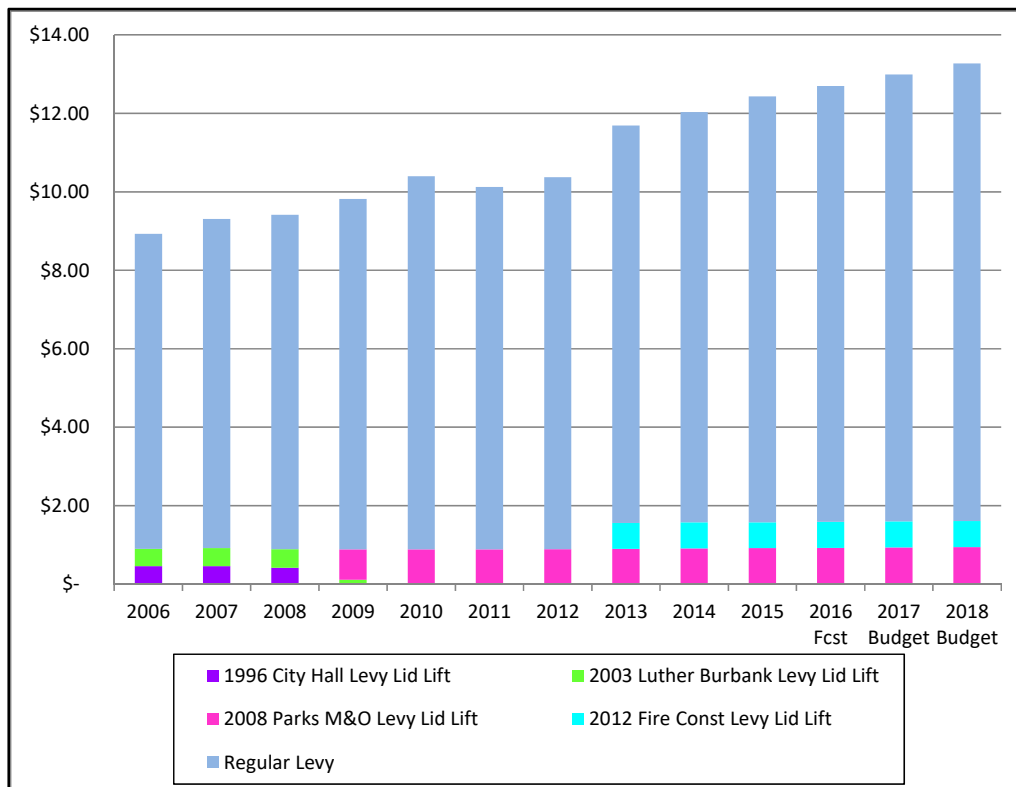
For the owner of a \$982,000 home, which is the median assessed value on Mercer Island for the 2016 tax year, the 2016 levy rate (per \$1,000 assessed valuation), the 2016 levy amount, and the percentage breakdown by taxing jurisdiction are presented in the following table. Including the City, there are 8 jurisdictions that have taxing authority on Mercer Island. In 2016, the total property tax levy on a

\$982,000 home is \$5,203. Note that the largest portion of the levy relates to schools, with 29.7% going to the Mercer Island School District and 26.0% going to the State School Fund, which together comprise 55.7% of the total levy. King County and the City are the next largest taxing jurisdictions, receiving 17.7% and 13.9% respectively of the total property tax bill. The remainder of the total levy, which equals 12.7%, relates to the King County Library District, the Emergency Medical Services (EMS) Levy, the Port of Seattle, and the Flood Zone District.

Taxing Jurisdiction	2016 Levy Rate	2016 Levy Amount	% of Total 2016 Levy
School District	\$2.47976	\$2,435	29.7%
State School Fund	2.16898	2,130	26.0%
King County	1.48027	1,454	17.7%
City	1.16502	1,144	13.9%
Library	0.47714	469	5.7%
EMS	0.28235	277	3.4%
Port	0.16954	166	2.0%
Flood Zone	0.12980	127	1.6%
Total	\$8.35286	\$8,203	100.0%

The actual (2006-2015) and projected (2016-2018) property tax revenues are displayed below.

Property Tax 2006-2018 (in Millions)



For more information about property taxes, see the Property Tax budget policy in Section I.

Revenue Sources

Budget Policies for 2017-2018

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

2017-2018 Budget Impact

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

Utility Taxes

Under state law, cities are granted the authority by a vote of the City Council to levy a business and occupation tax on public and private utilities known as the utility tax. Utility taxes are levied on the gross operating revenues that utilities earn from operations within the boundaries of the City. The tax applies to electric, natural gas, water, sewer, storm and surface water, solid waste, telephone, and cable television utilities. Legislation limits the tax rate on electric, natural gas, and telephone utilities to 6% without voter approval. There are no legislative limitations on the tax rates for other public or private utilities. Mercer Island currently levies a 6% utility tax on electric, natural gas, and telephone utilities; a 7% utility tax on solid waste and cable television utilities; and a 5.3% utility tax on the City's water, sewer, and storm water utilities. With one exception, which is discussed below, all utility tax revenues are used to support general government operations in the General Fund.

In 2010, the City implemented a water utility tax of 1.7% to fund fire hydrant related costs that had previously been funded by water utility rates. This shift in funding sources was driven by a Washington State Supreme Court ruling in *Lane vs. City of Seattle* in which the Court said that "providing fire hydrants is a government responsibility for which the general government of the area must pay." In other words, according to the Court, fire hydrant costs must be funded by taxes rather than by water utility charges. Because the City accounts for fire hydrant costs in the Water Fund, approximately one-third (i.e. 1.7%) of the 5.3% utility tax collected from the City's water utility customers is transferred from the General Fund to the Water Fund.

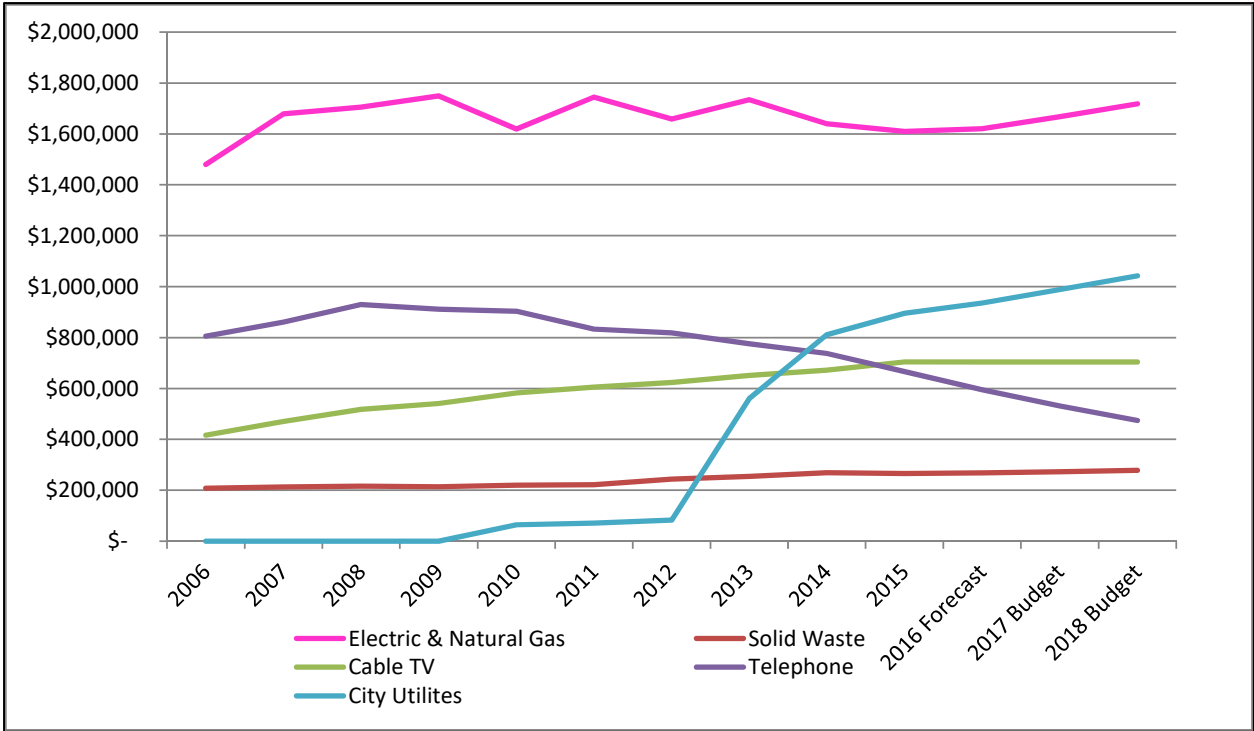
The Association of Washington Cities reports that 188 Washington cities impose utility taxes of some kind. Many cities apply the utility tax to publicly-provided utilities—water (145 cities), sewer (135) and storm water (60). Sixteen cities in King County impose a utility tax on one or more public utilities. In King County, public utility tax rates range from a high of 15.5% (Seattle) to a low of 5% (Bothell). The average utility tax rate among King County cities is 7.1%.

In budgeting utility taxes for 2017-2018, it is anticipated that historical trends will continue. Because Mercer Island has had a low housing growth rate, revenue growth from utility taxes is highly dependent on utility rate increases and weather conditions that affect customer demand for service. Electric and natural gas utility tax is projected to grow 3% in 2017 and 3% in 2018. Solid waste utility tax is projected to grow 1.9% in 2017 and 1.8% in 2018. Cable television utility tax is projected to remain flat in 2017 and 2018. Telephone utility taxes, which encompass land line, long-distance, voice over internet protocol (VoIP), and cellular utilities, are projected to decline 10.7% in 2017 and 10.8% in 2018. Water, sewer, and storm water utility taxes are collectively projected to grow 5.6% in 2015 and 5.6% in 2016.

The actual (2006-2015) and projected (2016-2018) utility tax revenues are displayed in the following graph:

Revenue Sources

Utility Tax Revenues 2006-2018



2017-2018 Budget Impact

Revenues	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
General Fund:				
Electric and Natural Gas	\$1,610,343	\$1,620,000	\$1,668,000	\$1,718,000
Solid Waste	265,385	268,000	273,000	278,000
Cable Television	704,218	704,000	704,000	704,000
Telephone	666,689	594,800	531,200	473,700
City Utilities (Water, Sewer & Storm Water)	895,283	936,000	988,000	1,043,000
Total Utility Taxes	\$4,141,918	\$4,122,800	\$4,164,200	\$4,216,700

Sales Tax

Sales tax is levied on the sale of consumer goods (except most food products and some services) and construction. On Mercer Island, the construction sector is the largest generator of sales tax dollars (52% of total in 2016), followed by the retail and wholesale trade sector (22% of total), and the food services sector (5% of total). The amount of sales tax revenue fluctuates from year to year due to changes in the economy, buying habits of consumers, and the level of construction taking place in the City.

Revenue Sources

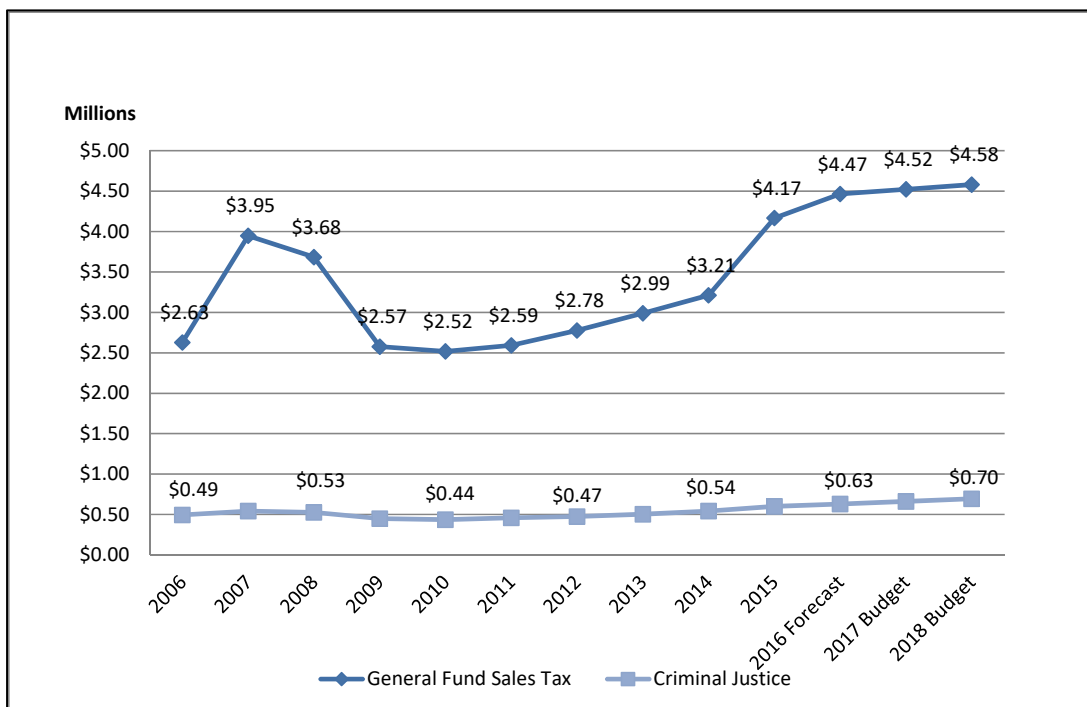
The total general sales tax rate on Mercer Island is 9.5%. Similar to property tax, the city receives only a small portion of the total sales tax revenue generated on Mercer Island. Of the 9.5% tax rate, only 0.85% is remitted to the City, with the remainder distributed to the State (6.5%), King County (1.15%) and other public agencies (1.0%). An additional 0.3% sales tax is collected by Washington State on vehicle sales and leases to fund transportation improvements. The distribution of the sales tax rate is displayed in the table to the right. The 0.85% general sales tax remitted to the City is accounted for in the General Fund.

Jurisdiction	Rate %
State of Washington	6.50%
King County	1.15%
Regional Transit	0.90%
City of Mercer Island	0.85%
Criminal Justice	0.10%
Total General Sales Tax	9.50%
Auto Sales/Leases	0.30%
Total Auto Sales/Leases Rate	9.80%

The City also receives a portion of the criminal justice sales tax (0.1%), which is a King County voter approved optional sales tax dedicated to funding criminal justice programs. The State collects this optional tax and retains 1.5% for administration. Of the amount remaining, 10% is distributed to the county and 90% is distributed to cities based on population. This optional sales tax cannot supplant existing general purpose revenues that are used for criminal justice purposes. The 0.1% criminal justice sales tax is accounted for in the Criminal Justice Fund.

The actual (2006-2015) and projected (2016-2018) sales tax revenues are broken down into its General Fund and Criminal Justice Fund components in the following graph.

Sales Tax 2006-2018 (in Millions)



In the General Fund, sales tax is projected to grow 1.3% in 2017 and 1.3% in 2018, primarily due to the projected decline in the current level of residential and commercial development activity on the Island. In the Criminal Justice Fund, sales tax is projected to grow 5% in 2017 and 5% in 2018.

Revenue Sources

2017-2018 Budget Impact

Revenues	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
General Fund	\$4,168,855	\$4,465,000	\$4,521,000	\$4,580,000
Criminal Justice Fund	599,679	630,000	662,000	695,000
Total Sales Taxes	\$4,768,534	\$5,095,000	\$5,183,000	\$5,275,000

Real Estate Excise Tax

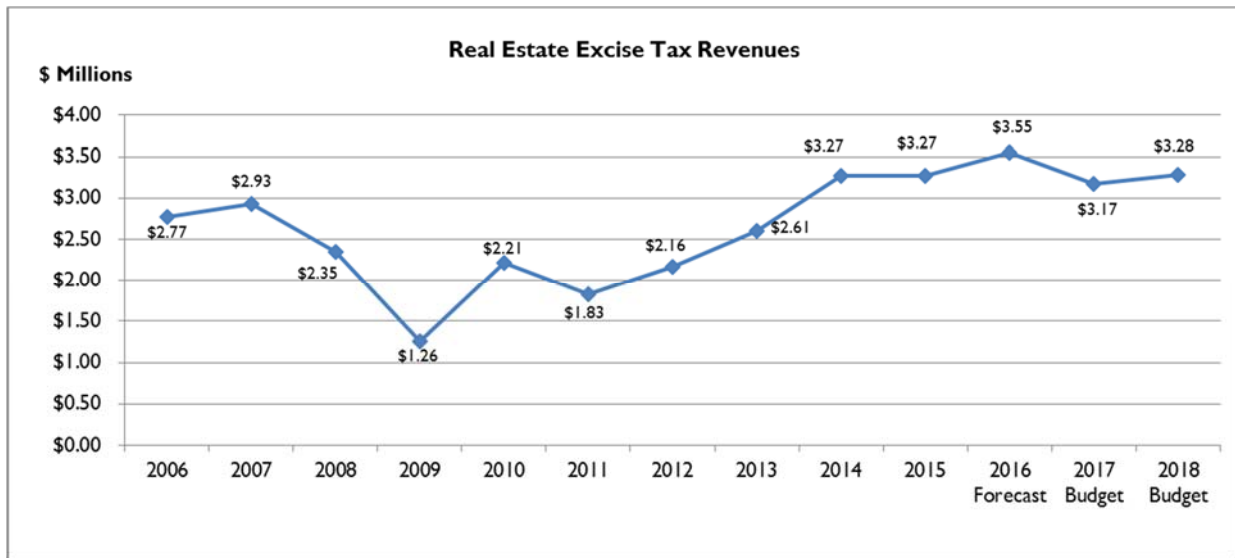
The Real Estate Excise Tax (REET) is levied on all sales of real estate, measured by the full selling price, including the amount of any liens, mortgages, and other debts given to secure the purchase. The State levies this tax at a rate of 1.28%. Local governments are also authorized to impose a local REET of up to 0.50 percent. All cities and counties may levy a quarter percent tax, described as the “first quarter percent of the real estate excise tax or REET 1”. In addition, cities and counties planning under the Growth management Act have the authority to levy a second quarter percent tax known as REET 2.

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

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

REET revenue can vary significantly from year to year, because property sales are highly dependent on economic conditions and interest rates. In 2008, as the “Great Recession” took root, the nation and the Puget Sound region experienced a major contraction in the housing market. REET revenues declined significantly in 2008, hitting bottom in 2009. The number of home sales on Mercer Island dropped from 608 homes in 2004, which represented the peak sales year, to 265 homes in 2008. Average home prices also declined from a high of \$1.24 million in 2008 to \$854,000 a year later. The actual (2006-2015) and forecasted (2016-2018) REET revenues are shown in the chart below.

Real Estate Excise Tax 2006-2018 (in Millions)



Home sales have improved steadily since 2008, reaching 509 in 2015. However, home sales have slowed significantly in 2016, though the average sales price has continued to increase. The number of home sales is forecast to be 450 in 2017 and 2018, with an average sales price of \$1,331,000 in 2017 and \$1,384,000 in 2018.

Continuing the City’s CIP financing strategy, REET 1 revenues are used to fund parks, open space, and public building maintenance projects and to pay the debt service on the Mercer View property and the Community Center. REET 2 revenues continue to be used for construction and maintenance of streets and pedestrian and bicycle facilities.

2017-2018 Budget Impact

Revenues	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
Capital Improvement Fund (REET 1)	\$1,634,689	\$1,775,500	\$1,582,500	\$1,642,000
Street Fund (REET 2)	1,634,689	1,775,500	1,582,500	1,642,000
Total Real Estate Excise Taxes	\$3,269,378	\$3,551,000	\$3,165,000	\$3,284,000

Business and Occupation Tax

The City of Mercer Island charges a Business and Occupation Tax (B&O) on gross revenues earned within the City limits during each calendar year. Taxpayers are required to file an annual B&O tax return at the end of each calendar year. Those taxpayers earning in excess of \$1.0 million a year are required to remit a quarterly B&O tax return.

The B&O tax is the primary revenue source for the Beautification Fund. The tax proceeds are restricted by ordinance to expenditures for: the installation and maintenance of landscaping; acquisition, operation, and maintenance of any building or property for park, recreation, and open space purposes; undergrounding of power lines; operation and maintenance of lighting facilities; support for a central business district revitalization program; acquisition and leasing of parking spaces; and enforcement of parking restrictions.

Revenue Sources

B&O tax is projected to grow 6% in 2017 and 5% in 2018.

2017-2018 Budget Impact

Revenues	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
Beautification Fund	\$570,658	\$605,000	\$641,000	\$673,000
Total B&O Taxes	\$570,658	\$605,000	\$641,000	\$673,000

Utility Rates

The City operates three separate utilities (Water, Sewer, and Storm Water), which are managed like a business, with customer charges funding all operating, maintenance, and capital costs. Collectively, utility rates, which are “charges for services,” account for 27% of the City’s total budgeted resources in 2017-2018.

The 2017-2018 Preliminary Budget is based on the following proposed utility rate increases:

- **Water Rates** – Customer charges pay for the cost of purchasing water from the City of Seattle and for operating, maintaining, and replacing the City’s water storage and distribution system. A 6.0% increase was proposed for 2017 and 2018 in the Preliminary Budget. However, the Council adopted a lower Water Rate increase of 5.5% based on the Utility Board’s recommendation in October 2016 (following the printing of the Preliminary Budget), which equates to \$5.46 and \$5.77 respectively on a typical single family residential customer’s bi-monthly water bill. These proposed rate increases are primarily driven by the following: 1) the need to make specific capital improvements following the discovery of E. coli in the City’s water system in September 2014 (e.g. Booster Chlorination Station); 2) the need to upsize water mains that do not meet the City’s flow capacity standards; and 3) the need to cover the water utility’s mostly fixed costs in the face of declining water usage each year.
- **Sanitary Sewer Rates** – Customer charges pay for the cost of operating, maintaining, and replacing the City’s sanitary sewer system. A 5.7% increase is proposed for 2017 and 2018, which equates to \$4.59 and \$4.85 respectively on a typical single family residential customer’s bi-monthly sewer bill. These proposed rate increases are primarily driven by the capital reinvestment needs of an aging sanitary sewer system, which were held to a minimum during the sewer lake line replacement project.
- **Sewage Treatment Rate** – This is a “pass through” charge assessed by King County, which provides wastewater treatment services to Mercer Island. A 5.2% increase is anticipated in 2017, and a 0% increase is anticipated in 2016. For 2017, this represents a \$4.38 increase on a typical single family residential customer’s bi-monthly sewer bill.
- **Storm Water Rates** – Customer charges pay for the cost of operating, maintaining, and replacing the City’s surface and storm water system. A 3.8% increase is proposed for 2017 and 2018, which equates to \$1.21 and \$1.26 respectively on every single family residential customer’s bi-monthly storm water bill. These proposed rate increases are primarily driven by planned watercourse stabilization, drainage system extension, and culvert replacement projects.

2017-2018 Budget Impact

Revenues	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
Water Fund	\$7,317,605	\$6,739,049	\$6,832,246	\$7,119,191
Sewer Fund	8,527,194	8,582,450	9,090,234	9,269,154
Storm Water Fund	1,779,310	1,817,782	1,864,465	1,935,314
Total Utility Rate Revenues	\$17,624,109	\$17,139,281	\$17,786,945	\$18,323,659

Development Fees

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

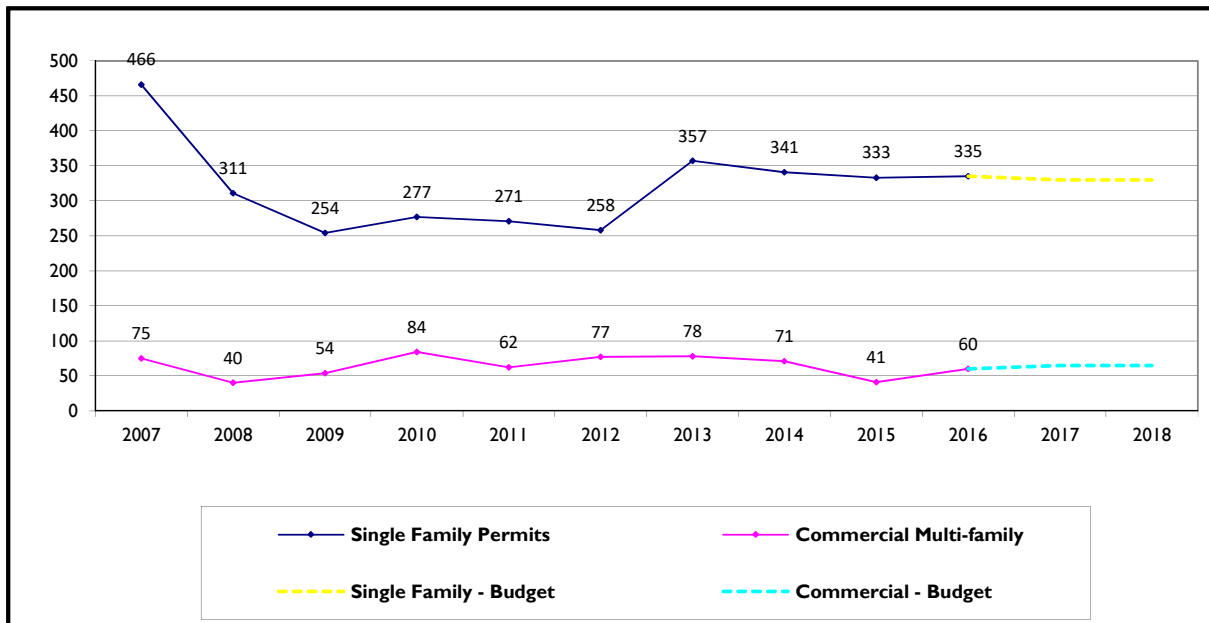
Based on a cost of service study conducted by FCS Group in 2016, the City Council adopted the following target cost recovery levels for eligible Development Services Group (DSG) costs beginning on August 1, 2016:

- 95% for Building Services
- 80% for Planning Services
- 80% for Engineering Services

Actual and forecasted single family residential permits and commercial and multi-family permits for the period 2007-2018 are shown in the chart below.

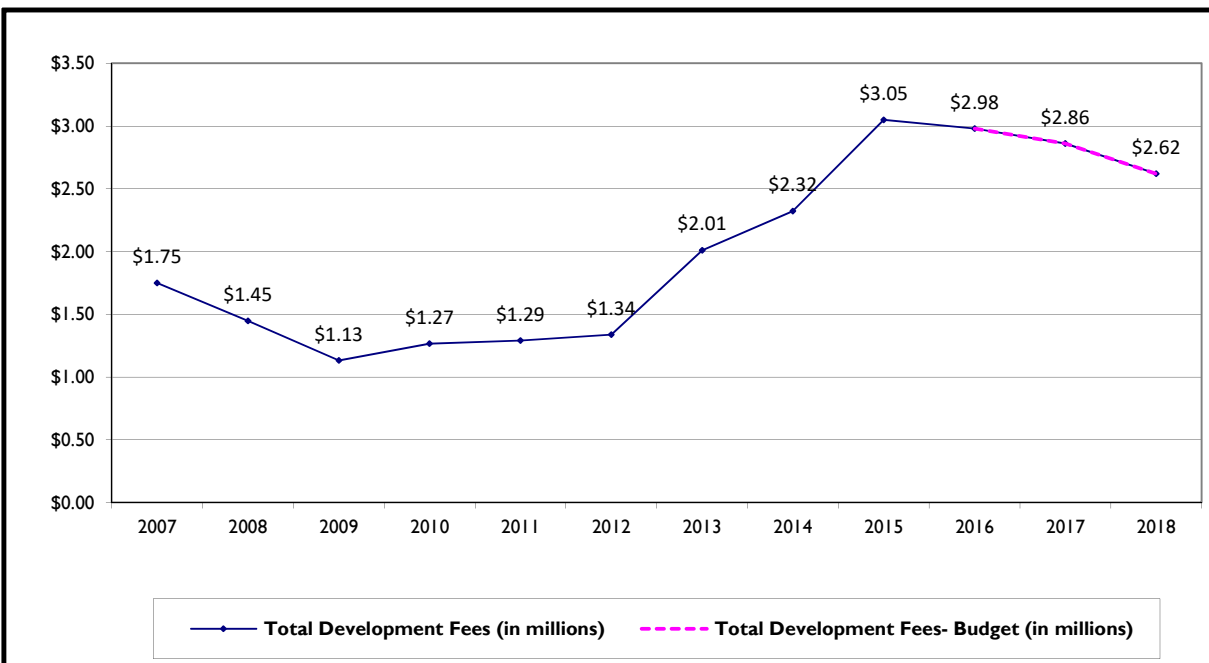
Revenue Sources

Building Permits 2007-2018



Actual and forecasted total development fees for the period 2007-2018 are shown in the chart below.

Total Development Fees 2007-2018 (in Millions)



Overall, development fees are projected to decline 4% in 2017 and 8% in 2018. The spike in 2015 and 2016 is directly related to several major school district projects and a mixed used development in the Town Center. See Development Review Fees policy in Section I (Budget Policies) for more information.

2017-2018 Budget Impact

Revenues	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
General Fund:				
Single Family	\$1,657,999	\$1,720,000	\$1,624,000	\$1,464,000
Multi-Family/Commercial	496,323	435,000	441,000	420,000
Land Use	396,402	370,000	375,000	331,000
Plat Improvement Permits	136,606	50,000	51,000	52,000
Street Use	160,695	148,000	95,000	95,000
Storm Drainage	58,980	68,000	80,000	80,000
Fire Review/Inspection	145,808	197,200	191,500	181,500
Total Development Fees	\$3,052,813	\$2,988,200	\$2,857,500	\$2,623,500

State Shared Revenues

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

- **Motor Vehicle Fuel Tax (Gas Tax)** – This is a fixed tax, currently making up 44.5 cents of the per gallon price of gasoline, diesel, and other fuels. It applies to the volume, not the dollar amount, of the fuel sale. It is distributed to incorporated cities and towns based on population. The City's portion of the motor vehicle fuel tax is budgeted in the Street Fund and is used for street construction projects. The motor vehicle fuel tax is projected to increase 1.0% in 2017 and decline 2.6% in 2018 due to Mercer Island's slower population growth relative to other cities and towns in the state.
- **Liquor Excise Tax and Liquor Profits** – Initiative 1183 was approved by Washington's voters in November 2011 "privatizing" the distribution and retail sale of liquor and ending the state's monopoly on liquor sales. Instead of a calculation based upon the profits generated from state run liquor sales, the revenue distribution is now based on the collection of license fees paid by retailers and distributors. Then, the 2012 state legislature passed a law permanently diverting \$2.5 million per quarter from the state liquor excise tax fund (for distribution to cities and counties) to the state general fund. The 2013-2015 state budget reduced the share of liquor excise taxes collected and remitted to cities and counties from 35% to 22.5%. The liquor excise taxes and profits collectively are projected to increase 0% in 2017 and 1.0% in 2018. The 2015-2017 adopted state budget increased the liquor excise tax distribution to cities and counties back to 35%.
- **Vessel Registration Fees** – Funds are allocated to counties with eligible boating safety programs approved by the State Parks and Recreation Commission. Distribution is based on the number of vessels registered in each county. Counties can also further allocate this money to local jurisdictions with approved boating safety programs. The Mercer Island Marine Patrol division is a qualified boating safety program and receives a portion of the King County vessel registration fees. Vessel registration fees are projected to be flat in 2017 and 2018.

Revenue Sources

- **Criminal Justice Distributions** – The State distributes dollars based on population for criminal justice purposes. These revenues are restricted for: 1) innovative law enforcement strategies; 2) implementation of DUI or other criminal justice statutes; 3) programs to help at risk children or child abuse victim resource programs; and 4) programs designed to reduce the level of domestic violence or to provide counseling for domestic violence victims. These shared revenues are budgeted in the Criminal Justice Fund and are projected to increase 4.5% in 2017 and 3.0% in 2018.
- **Fire Insurance Premium Tax** – The state distributes taxes on fire insurance premiums, which must be deposited in a firemen’s pension fund to help pay the pension benefits due to pre-LEOFF I firefighter retirees.

2017-2018 Budget Impact

Revenues	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
General Fund				
Liquor Excise and Profits	\$ 280,996	\$ 311,653	\$ 312,388	\$ 315,074
Vessel Registration Fees	78,022	80,000	80,000	80,000
Street Fund (Motor Vehicle Fuel Tax)	491,973	498,000	503,000	490,000
Criminal Justice Fund (CJ Distribution from State)	32,725	34,330	35,880	36,960
Firefighters Pension Fund (Fire Insurance Premium Tax)	31,290	29,607	30,000	30,000
Total State Shared Revenues	\$ 915,007	\$ 953,590	\$ 961,268	\$ 952,034

Emergency Medical Service Revenues

The City budgets three revenues in support of essential emergency medical services that are provided by the Mercer Island Fire Department: 1) King County Emergency Medical Services Levy, 2) BLS Ambulance Transport Fee, and 3) Emergency Medical Service (EMS) utility charge.

- **King County EMS Levy** – Beginning in 1990, the City began receiving a portion of the 25 cent King County property tax levy that was approved by voters for 911 emergency services. The King County levy was renewed for a six year period beginning in 2014, with the current levy set at \$0.335 per \$1,000 of assessed valuation. Distribution to municipalities is based on a formula that considers the number of calls for service, total assessed valuation, and the consumer price index (CPI-U).
- **Ambulance Transport Fee** – Beginning March 2011, the Fire Department began charging a fee for transporting patients requiring non-emergency, basic life support to hospitals. The program was established to create a sustainable revenue source to support the cost of providing emergency medical services.
- **Emergency Medical Service (EMS) Utility Charge** – This utility charge is adjusted each year based on the average cost of four firefighter positions, which were hired in 1996 to provide capacity to handle simultaneous EMS calls. In addition, the utility charges are adjusted every 2 years based on the EMS call history over the previous 2 year period. Starting in 2011, the demand portion of the rate was adjusted based on revenue expected to be collected from

ambulance transport fees, resulting in a flat rate per equivalent service unit (ESU). A 5.1% increase is estimated for 2017 and a 4.0% increase is estimated for 2018.

2017-2018 Budget Impact

Revenues	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
General Fund				
King County EMS Levy	\$ 425,735	\$ 474,320	\$ 448,369	\$ 459,578
Ambulance Transport Fee	296,957	285,000	285,000	285,000
EMS Utility Charge	529,848	530,000	557,000	579,000
Total EMS Revenues	\$ 1,252,540	\$ 1,289,320	\$ 1,290,369	\$ 1,323,578

Parks and Recreation Fees

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

- **Recreation** – Includes athletics, health and fitness, outdoor aquatics, cultural and arts programming, and senior services, and relies primarily on program fees and community sponsorships.
- **Mercer Island Community and Event Center** – The MICEC's primary source of funding is facility rental fees (short-term room rentals and long-term daycare space in the Annex). Additional revenues are generated through drop-in sports programs and membership passes for the fitness room. Facility rental rates are regularly evaluated and adjusted as needed. It is important to note that rates have been increased a number of times since the new facility opened, with 2013-2014 revenue more than doubling the amount collected in 2008. However, MICEC staff believes that facility rental rates are currently at market, with the exception of the Community Service group rate, which is subsidized.
- **Park Maintenance** – Includes park facility rental fees and special use permits. These fees are intended to help offset the cost of maintaining sports fields. The City also receives funding from the Washington State Department of Transportation that helps offset the cost of maintaining portions of the I-90 corridor.

Budget Policies for 2017-2018

- Recreation program cost recovery levels for adults shall be greater than youth and seniors, and youth programs shall recover more than senior programs. Adult sports leagues shall recover a higher level of costs than youth sports leagues.
- The overall Parks & Recreation Department budget, will be subject to a total cost recovery policy of 50-55% through recreation fees, rental fees, and other dedicated revenues
- Continue to refine the existing MICEC room rental pricing for residents and non-residents, Island based community groups, off-island community groups, and corporate clients.

Revenue Sources

2017-2018 Budget Impact

Revenues	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
General Fund				
Recreation	\$ 633,841	\$ 744,700	\$ 700,250	\$ 700,250
MI Community & Events Center	734,035	727,605	745,533	747,930
Park Facilities	189,255	186,300	199,535	235,635
Beautification Fund	605,481	600,447	614,950	632,623
Total Parks and Recreation Fees	\$ 2,162,611	\$ 2,259,052	\$ 2,260,268	\$ 2,316,438

Thrift Shop Sales

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

Thrift Shop revenue hit a plateau during the 2013-2014 biennium. This was primarily due to work study staffing challenges and a reduction in volunteer hours during a portion of the year. In 2016 the Thrift Shop implemented a pilot project that added a contract position to lead apparel production staff. Early indicators suggest that the position increases efficiency of store operations resulting in consistent revenue growth potential. The Thrift Shop recommends continuing this staffing model which is proposed as an ongoing service package in 2017-2018.

The Thrift Shop business model depends heavily on staff volunteers. Their commitment stems from the mission focus of raising revenues to pay for programs operated by YFS. The volunteer hours of community members rose in 2015 and has continued into 2016. Along with this increase the store is also losing the seasoned volunteer staff members who donated upwards of 20 hours per week. This trend of more volunteers who provide fewer hours requires Thrift Shop Coordinators to spend more time recruiting, orienting, training and retaining volunteers.

2017-2018 Budget Impact

Revenues	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
YFS Fund (Thrift Shop)	\$ 1,340,561	\$ 1,413,651	\$ 1,498,334	\$ 1,573,250
Total Thrift Shop Revenue	\$ 1,340,561	\$ 1,413,651	\$ 1,498,334	\$ 1,573,250

Municipal Court Fines and Forfeits

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

Court revenues are highly dependent on caseload. It is important to note that the court’s responsibility does not end with the caseload filed in that calendar year. In most cases, the court has jurisdiction over criminal cases for two years. For DUI matters, jurisdiction continues for five years. The Court continues to manage court cases, hold court hearings, and monitor cases for compliance with conditions until the end of the jurisdictional period.

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

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

2017-2018 Budget Impact

Revenues	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
General Fund	\$ 433,172	\$ 415,000	\$ 415,000	\$ 415,000
Total Fines & Forfeits	\$ 433,172	\$ 415,000	\$ 415,000	\$ 415,000

Utility Overhead Charges

The three City-owned utilities (Water, Sewer, and Storm Water) 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. In addition, building maintenance costs related to City Hall and the Maintenance Center are accounted for in the General Fund. In order for the utility budgets to reflect the full costs of administration and building maintenance, an interfund charge is assessed to each of the City’s three utilities. The overhead charge is determined through an indirect cost allocation model using various bases of allocation for distributing the overhead costs. For more information on the allocation methods, see the Utility Overhead Charges policy in Section I.

Revenue Sources

For the 2017-2018 budgets, the overhead charge to the Sewer Funds is decreasing, and the overhead charge to the Water Fund and the Storm Water Fund is increasing. These variances are due to changes in the bases of allocation used to distribute the overhead costs.

2017-2018 Budget Impact

Revenues	2015 Actual	2016 Forecast	2017 Budget	2018 Budget
General Fund:				
Interfund Charge for Administration & Building Maintenance (Water Fund)	\$163,898	\$172,282	\$182,274	\$187,158
Interfund Charge for Administration & Building Maintenance (Sewer Fund)	130,290	136,843	126,829	130,459
Interfund Charge for Administration & Building Maintenance (Storm Water Fund)	125,513	131,068	143,069	146,489
Total Utility Overhead Charges	\$419,701	\$440,193	\$452,172	\$464,106