2019-2020 Biennial Budget

Section A

Reader’s Guide

Final Budget
Section Overview

The budget document serves two distinct purposes: 1) to present the City Council and Island residents with a clear picture of the services that the City provides, the funding and cost of those services, and how the budget policy issues were addressed; and 2) to provide City management with an operating and capital plan that can be monitored using the City’s financial system. The sections below describe the various budget segments, providing a map for readers to locate information they are most interested in seeing. The sections are listed in the order in which they are found in the budget document. Following the Section Overview is a brief description of fund accounting, the types of funds included in the budget, the basis of accounting used, and the budget process.

B. Budget Message

The Budget Message provides an overview of the key policy issues facing the City as well as the City Manager’s recommended operating and capital plan for the coming two years.

C. Budget Summary

This section explains how the City is organized and staffed; includes citywide, summary level revenue and expenditure information; provides an annual financial summary by fund; provides an overview of City utility (i.e. water, sewer, and storm water) rates; highlights the purpose and status of debt issued by the City.

D. Revenue Sources

This section focuses on the City’s major revenue sources, providing useful background information, historical data, and 2019-2020 projections for each revenue source.

E. Recap by Fund

The City accounts for all of its operating and capital activities within a number of “funds,” each of which is considered a separate accounting entity with a distinct set of self-balancing accounts. This section, which is organized by fund, includes the following summary level information: resources and uses (for each fund), expenditures by category (for most funds), fund balance composition (for each fund), and operating budget analysis (for most funds).

F. Operating Budget by Department

This section breaks down all of the City’s operations by department: City Attorney’s Office, City Council, City Manager’s Office, Community Planning & Development, Finance, Fire, Human Resources, Information & Geographic Services, Municipal Court, Non-Departmental, Parks & Recreation, Police, Public Works and Youth & Family Services. Each department sub-section is organized as follows:

- **Department Summary:** Includes description, organization chart by function, staffing summary, resources and uses summary, expenditure summary by function and an operating budget analysis by fund or fund groups.

- **Service Package Requests:** A “service package request” represents a temporary or ongoing request for staffing (seasonal, contract, or regular), a contracted service, or an equipment purchase or lease.
- **Department Functions**: Each department is further broken down into “functions,” which represent major services provided by the department. For each department function, the following is identified: description, priority of government, services & products, 2019-2020 key initiatives, and expenditure summary by category.

**G. Capital Improvement Program**

The Capital Improvement Program (CIP) encompasses all planned capital projects for a six-year period (2019-2024), with the first two years appropriated within the 2019-2020 Adopted Budget. This section is organized into four sub-sections: 1) Introduction; 2) Project Summary; 3) Individual Project Sheets; and 4) Six-Year Fund Statements. The Introduction addresses the following: CIP development; capital financing strategy; real estate excise tax (REET) forecast; fund balance trends; project management; summary of changes to the Preliminary CIP; 2019-2024 project highlights; and partially funded and unfunded capital needs. The Project Summary is organized by plan (Capital Re-investment Plan vs. Capital Facilities Plan) and then by project category (Parks, Recreation, and Open Space; Streets and Pedestrian/Bicycle Facilities; General Government; Sewer Utility; Storm Water Utility; and Water Utility). With very few exceptions, all capital projects are accounted for in the following six funds: Street Fund, Capital Improvement Fund, Technology & Equipment Fund, Water Fund, Sewer Fund, and Storm Water Fund. A Six-Year Fund Statement, which includes the projected revenues, planned CIP projects, and projected annual fund balance, is prepared for each of these funds.

**H. Budget Policies**

The Budget Policies were developed to provide a clear foundation for a variety of funding and management decisions. During the development of the biennial budget, the policies are formally reviewed with Council to obtain approval, to ensure their relevance, and to determine what new policies might need to be written. Some of the strictly financial policies change very little from year to year, while some of the program-related policies are revised every two years to provide the most current information.

**Explanation of Accounting Basis and Budgeting**

**Basis of Presentation - Fund Accounting**

All City activities are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures (or expenses, as appropriate). Each of the City’s funds are described in detail in Section E – Recap by Fund.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent. Each fund serves as an expenditure control mechanism. The various funds are grouped into the following seven categories:

- **General Purpose Funds**
  Revenue in this fund category is considered unrestricted and can be used for any City purpose, including operations and capital. This category consists of three funds: the **General Fund**, the **Self-Insurance Fund**, and the **Youth Services Endowment Fund**. The General Fund is the general operating fund of the City and is used to account for all activities not otherwise required to be accounted for in another fund. The major services accounted for in the General Fund include **police; fire and emergency medical; parks and recreation; street and**
right of way maintenance; development services; legal, judicial, and financial services; and general administration. The Self-Insurance Fund is a “reserve” fund that pays for insurance losses not covered by the City’s $5,000 deductible or other insurance. The Youth Services Endowment Fund is a permanent fund in which the donated monies remain invested as principal and from which the investment earnings can be spent to support ongoing Youth & Family Services’ programs, which are accounted for in the Youth & Family Services Fund.

• Special Revenue Funds
Special revenue funds group together activities that are financed by restricted or committed revenue sources and that do not qualify as an enterprise (see Enterprise Funds below). Funds included in this category are the Street Fund, Youth & Family Services Fund, 1% for the Arts Fund, and Contingency Fund. The Contingency Fund is a reserve fund that is available to temporarily stabilize significant revenue shortages or to address unanticipated needs. Council policy has set the Contingency Fund at 17% of budgeted General Fund expenditures.

• Enterprise Funds
Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises. In enterprise funds, the intent of the governing body is to recover the costs (including depreciation) of providing goods or services to the general public on a continuing basis primarily through user charges. Funds included in this category are the Water Fund, Sewer Fund and Storm Water Fund.

• Internal Service Funds
Internal service funds are used to account for the financing of goods or services provided by one department to other departments of the City on a cost reimbursement basis. This fund category includes the Equipment Rental Fund and the Computer Equipment Fund. The Equipment Rental Fund accounts for the cost of maintaining and replacing all City vehicles, heavy equipment, and 800MHz radios. Each department is charged operating and maintenance rates as well as replacement rates for the use of these assets. The Computer Equipment Fund was created to protect the City’s current and future investment in computer equipment. Each department is charged a rate that covers the cost of repair and maintenance, operation, and replacement of the City’s computer systems.

• Trust and Agency Funds
These funds account for activities where the City acts as the fiscal agent. There is only one fund in this category: the Firefighter’s Pension Fund.

• Debt Service Funds
Debt service funds are used to account for the accumulation of resources for the payment of general long-term debt principal and interest. The City of Mercer Island has two debt service funds: the Bond Redemption Fund–Voted Debt and the Bond Redemption Fund–Non-Voted Debt.

• Capital Project Funds
Capital project funds are used to account for financial resources earmarked for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, special assessment funds, and trust funds). These funds are not part of the operating budget, but are included in the City’s six-year Capital Improvement Program. Current capital project funds
Basis of Accounting

The City’s basic accounting structure, including its chart of accounts and account coding format, is mandated by the Washington State Auditor’s Budgeting, Accounting and Reporting System (BARS), and is enforced by the Office of the State Auditor through annual audits. The basis of accounting refers to when revenues and expenditures (or expenses) are recognized in the accounts and reported in the financial statements.

- **Accrual Basis of Accounting**
  The accrual basis of accounting is followed in all of the City’s enterprise, internal service, and trust funds. Under this basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. As a result, revenues can be recognized even though no cash has been received yet, assuming that a good or service has been provided. Also, expenses can be recognized once a good or service has been received even though no payment has been made yet. This is the same basis of accounting that is used in the private sector. All assets and liabilities are recorded in the fund that owns them.

- **Modified Accrual Basis of Accounting**
  All of the remaining fund categories are reported under the modified accrual basis of accounting. Under this basis of accounting, revenues are recorded when they are both measurable and available. “Available” means collectible within the current period or soon enough thereafter to pay current liabilities. The major revenue sources that are accrued by the City are listed below.

  - **Property Taxes** – King County acts as the City’s intermediary collection agency. The County remits to the City on a daily basis property taxes paid by Mercer Island property owners. Property taxes should be accrued only when due and expected to be collected within 60 days of the end of the fiscal period. The City accrues all property tax revenue received within 31 days of the end of the fiscal period.

  - **Utility Taxes** – Utility taxes are considered both measurable and available if collected within 31 days of the close of the fiscal period.

  - **Business & Occupation Taxes** – Primarily collected on an annual basis, revenue is considered measurable and available if received within 45 days of the close of the fiscal period.

  - **State Shared Revenues** – Mainly State collected sales and excise taxes, these revenues are considered measurable and available if received within 31 days of the close of the fiscal period.

  - **Grant Revenues** – When expenditures are the primary factor for determining eligibility, the grant revenue is considered measurable and available when the expenditure is made.

  - **Interfund and Intergovernmental Services** – When goods and services have been provided, these are considered both measurable and available.
**Interest and Rental Revenues** – When investment interest and rental income have been earned and are due they are considered measurable and available.

Revenue sources that are not considered to meet the measurable and available criteria include licenses and permits, fines and forfeitures, and other miscellaneous revenues since their values are not known until received.

Under the modified accrual basis, expenditures are recorded when the liability is incurred. An exception to this rule is the principal and interest on general long-term debt that is recognized as an expenditure when it is paid. Long-term liabilities are accounted for in the general long-term debt account group. Purchases of fixed assets are expensed during the year incurred, and are accounted for in a separate fixed asset system over their useful life.

- **Budgetary Basis**
  The budgets of general governmental type funds (for example, the General Fund and the Street Fund) are prepared on a modified accrual basis. The enterprise funds (i.e. Water, Sewer and Storm Water Utilities), on the other hand, are budgeted on a full accrual basis.
**Budget Process**

The City follows the below outlined procedures in establishing its budget every other year. These procedures are in accordance with State law time limitations and are designed to give the Council and the public ample opportunity to understand and have input on the budget direction of the City for the next two years.

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<th>Budget Process Steps</th>
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<td>1. 6 year Capital Improvement Program (CIP) kick-off meetings with Council and staff</td>
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<td>2. Budget policies related to the CIP are reviewed by Council at three points during the budget process</td>
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<td>3. Operating Budget kick-off meetings with Council and staff</td>
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<td>4. Budget policies related to the Operating Budget are reviewed by Council at two points during the budget process</td>
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<td>5. Operating Budget revenue and expenditure estimates prepared by departments</td>
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<td>6. CIP Preview meeting with Council</td>
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<td>7. Departments prepare Operating Budget requests, key initiatives, and other information related to the coming biennium</td>
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<td>8. Finance department prepares tax and other major revenue estimates</td>
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<td>9. Finance Department and City Manager review departmental Operating Budget requests and make changes as necessary</td>
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<td>10. Finance Department prepares Preliminary Budget and files it with the City Clerk</td>
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<td>11. City Clerk publishes notice of Preliminary Budget and public hearings</td>
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<td>12. City Manager and Finance Director present Preliminary Budget to Council</td>
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<td>13. Copies of Preliminary Budget made available to the public</td>
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<td>14. Public hearings on Preliminary Budget held</td>
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<td>15. City Clerk publishes notice of public hearing on Final Budget</td>
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<td>16. Final hearing begins no later than the first Monday in December</td>
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<td>17. Council adopts balanced Final Budget for coming biennium</td>
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The budget, as adopted, constitutes the legal authority for expenditures. The City’s budget is adopted at the fund level, meaning that there is a total appropriation, or expenditures limit, for each fund. Transfers or revisions within funds are allowed; however, any revisions that alter the total expenditures must be approved by the City Council. When the City Council determines that it is in the best interest of the City to amend the budget, it may do so by ordinance, which requires majority approval at any regularly scheduled Council meeting.

The budget is formally monitored on a quarterly basis by the Finance Department, generating a quarterly financial status report to the Council. Because the City prepares a two-year budget, a mid-biennial budget review meeting is also held in November of the first year of the biennium. Amendments to the adopted budget are typically approved by the Council when a quarterly financial status report is presented to the Council.