



*City of Mercer Island*

**CITY FINANCES:**

**“HOUSTON, WE HAVE A PROBLEM”**

Presented by: Julie Underwood, City Manager

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Presented to: Chamber of Commerce

Date: Wed, Oct 11, 2017

# Did you know...?

## *City of Mercer Island*

- Population of 24,210
- **Full service city**
  - Police, fire/EMS, parks & recreation, street/roadside maintenance, planning & community development, water/sewer/storm water utility, and social services
- 2017 budget = \$65.2M (\$12.9M for capital projects)
- 207 employees (includes 12 contract staff)
  - 2<sup>nd</sup> lowest staffing ratio among full service King County cities
- **Lowest property tax rate** in King Co. (among cities >20,000)
- **Clean audit opinion** received for past 22 years
- **Aaa credit rating** from Moody's (best possible rating)
- **Lowest violent & property crime rates** among full-service Eastside cities

# City of Mercer Island

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- Our Mission

- *To provide outstanding municipal services that enhance and protect the environment, the quality of life, and the community health, safety, and welfare on Mercer Island*

# City Services in the Town Center



# Confidence in City Government

- March 2016 citizen survey job ratings:
  - 66% of residents say the City is doing a “good” or “excellent” job overall
  - 60% of residents say the City is “good” or “excellent” at using tax dollars responsibly
    - King County’s rating is 38%

# How Mercer Islanders see their community...

- A REAL COMMUNITY
- “Family-friendly, green, safe, connected, caring, hub, home, connection, safe, transitional, concerned, volunteers, center, involved, lush, successful, generational, energy, changing, sylvan, generous”

# Our sense of community is reflected in our City government

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- Our own dedicated Police & Fire services (rather than contracted out)
- Youth & Family Services Department is truly unique among King County cities
- Tradition of being lean, cost conscious, and effective
- Small town feel with accessible City Council and staff

# Have you heard...



- ...about the financial challenges facing our City?



# “Houston, we have a problem”

## ■ 2017-2018 operating budget

- Balanced using \$1.95M in one-time resources

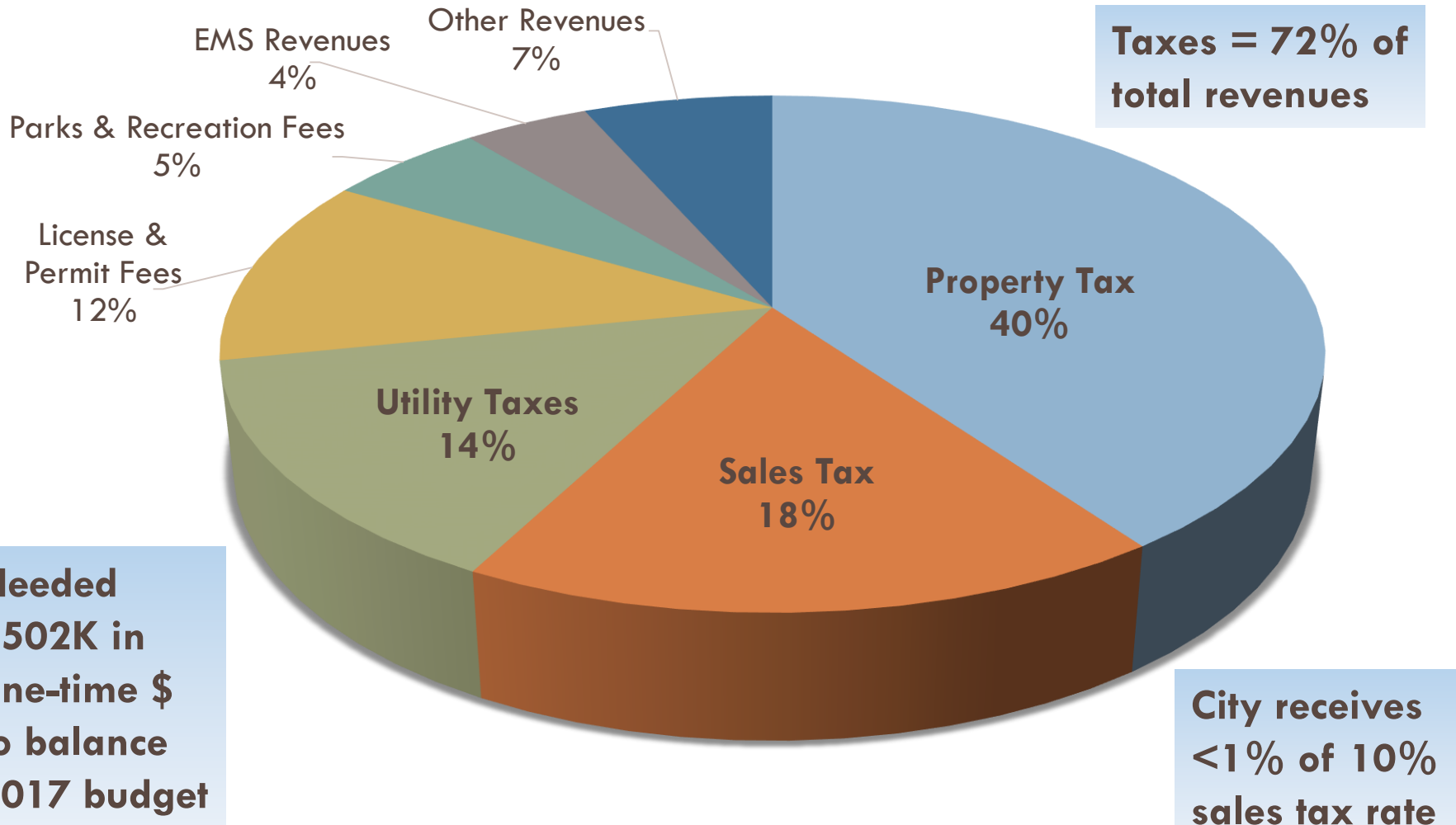
## ■ 2019-2024 financial forecast

- Annual revenue growth = 2.3% on average
- Annual expenditure growth = 4.8% on average

## ■ Why?

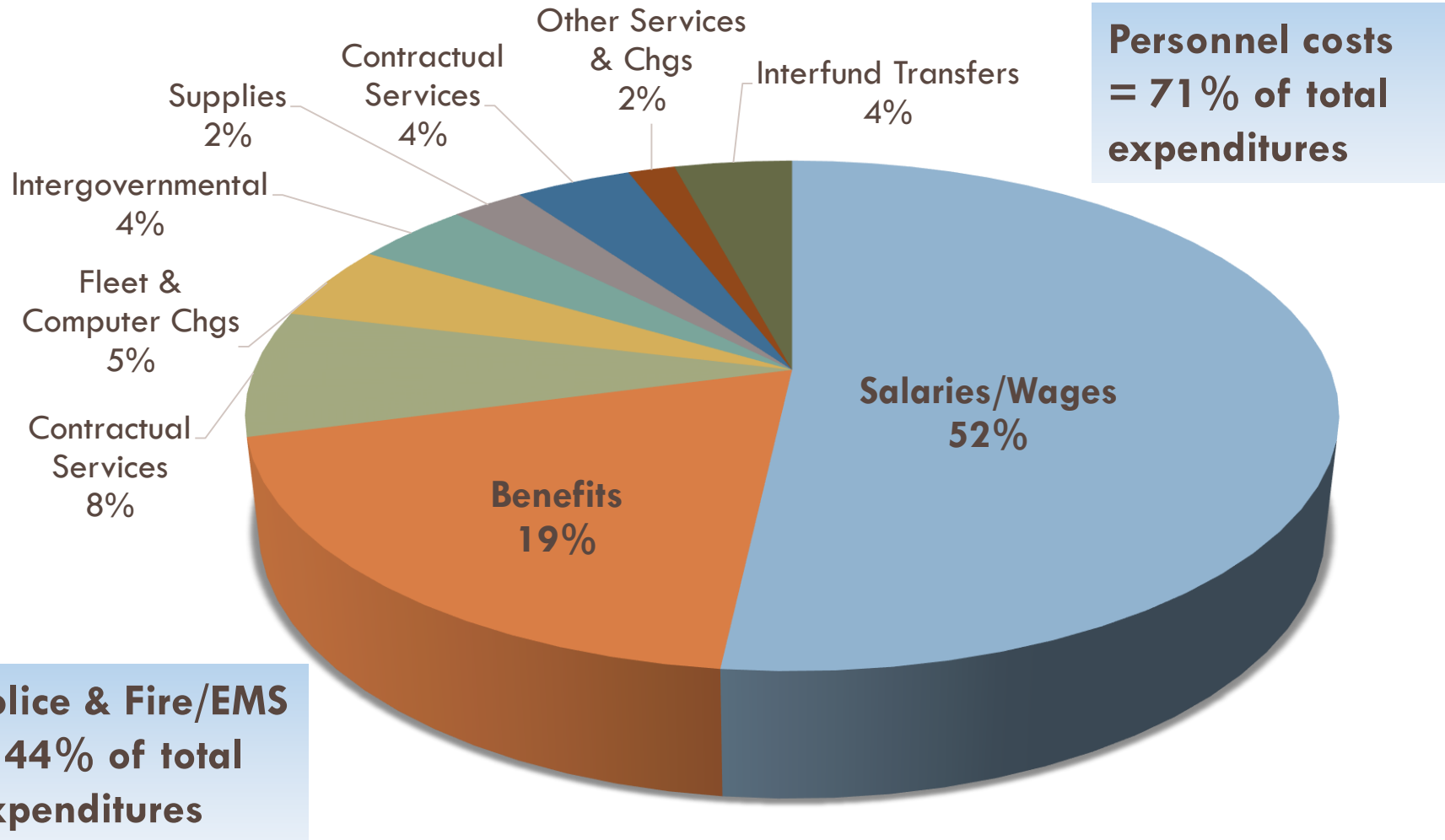
- **Property taxes** (40% of total General Fund revenues) are capped by state law at 1% growth per year + an allowance for “new construction,” which equals another 1% per year
- **Personnel costs** (71% of total General Fund expenditures) grow 4-5% per year when inflation is 3% or higher

# General Fund Revenues (2017 Budget)



# General Fund

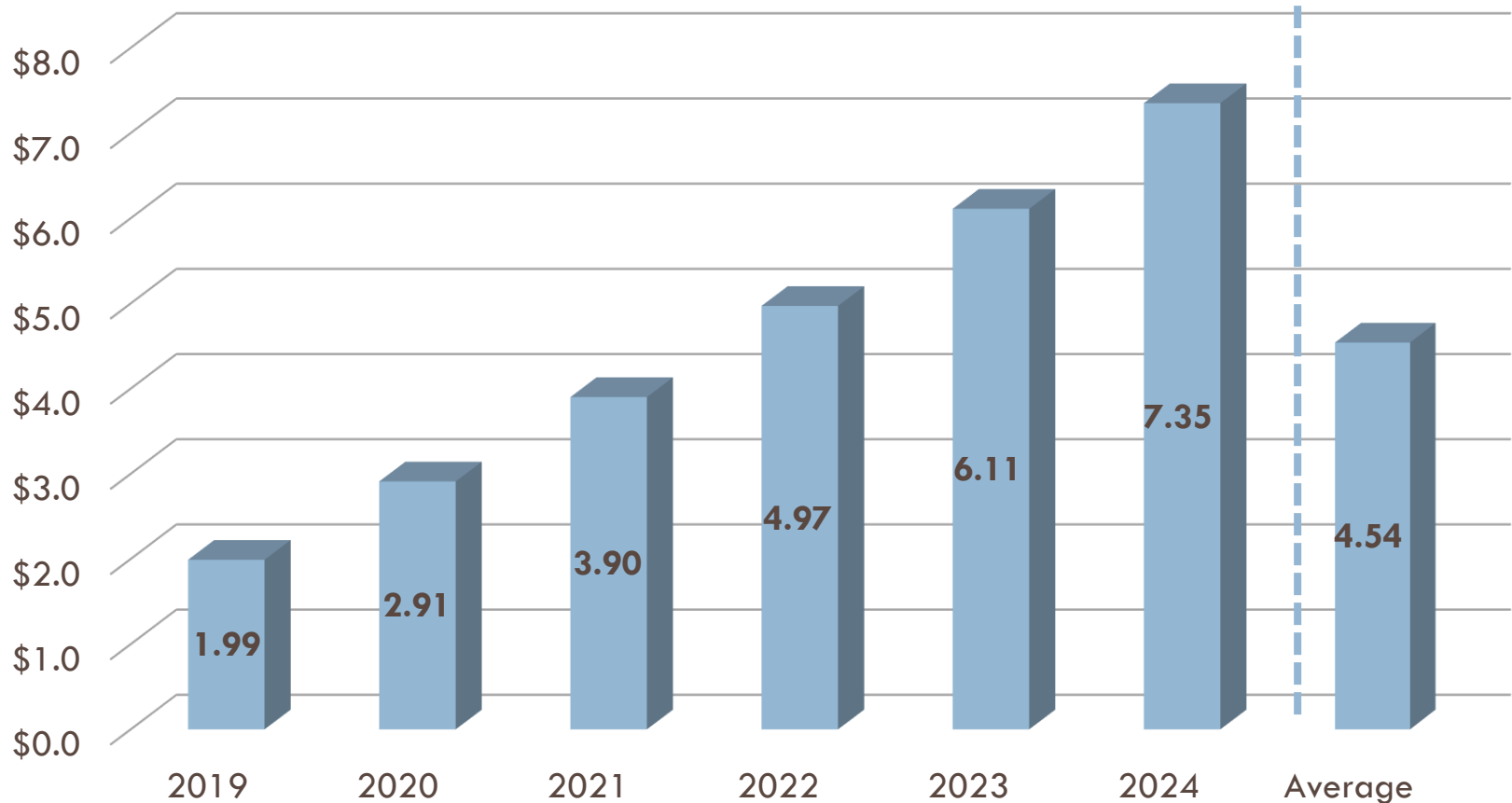
*Expenditures (2017 Budget = \$30.0M)*



# Structural Imbalance

## *Operating Budget*

### 2019-2024 Projected Deficits (\$M)



# What Can We Do?



## ■ **Reduce expenditures**

- 52 employees, or 25% of City's workforce, would have to be cut in 2019-2024 to balance the budget
- Most of the cuts would impact “non-essential” services provided by Parks & Recreation and Youth & Family Services

# What Can We Do?

## ■ Increase revenues

- Economic development in the Town Center would help a little, but it wouldn't solve the problem
  - Mercer Island is a bedroom community with a very modest commercial sector
  - Small retail stores don't generate much sales tax revenue
  - Costco = \$1.0M in sales tax revenue
  - Car dealership = \$300K-\$400K in sales tax revenue
  - No major retail business would locate on Mercer Island given what's currently located in Seattle and Bellevue

# What Can We Do?

## ■ Increase revenues (cont'd)

### ■ Utility tax

- The Council could increase the tax rate on the City's water, sewer, and storm water utilities
- Example: Going from 5.3% to 10.3% would generate \$875K in new revenue, which is less than the \$2.0M projected deficit in 2019

### ■ Property tax levy lid lift (voter approved levy)

- Best revenue option given that property tax is the City's largest revenue source (40% of total General Fund revenues)

# We are engaging our community...

- **Telephone Town Hall (TTH)**
  - **TONIGHT:** Wed, Oct 11, 7:00-8:00pm
  - Register to participate at: [www.mercergov.org/FinancialChallenges](http://www.mercergov.org/FinancialChallenges)
- **Community Advisory Group (CAG) meetings**
  - Kick-off: Wed, Nov 15, 6:30-8:30pm (Community Center)
  - 2018: Jan 6, Feb 5, Mar 3, Apr 2 (Community Center)
- **Community-wide meetings**
  - Will schedule 3 + another TTH in Jan-Apr 2018
- **Road show meetings**
  - Will schedule with many Island groups in Feb-Apr 2018



# Questions?

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- What's on your mind?
  - There are no “out of bounds” questions
- Information sheet

**GET THE FACTS  
GIVE YOUR INPUT**

**Help Us Balance The Budget**