



**BUSINESS OF THE CITY COUNCIL  
CITY OF MERCER ISLAND**

**AB 6327  
September 5, 2023  
Regular Business**

**AGENDA BILL INFORMATION**

<b>TITLE:</b>	AB 6327: Financial Status Update for Second Quarter 2023 and Budget Amending Ordinance	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input checked="" type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
<b>RECOMMENDED ACTION:</b>	Receive the FY 2023 Second Quarter Financial Status Update and adopt Ordinance No. 23-12, amending the 2023-2024 Biennial Budget.	

<b>DEPARTMENT:</b>	Finance
<b>STAFF:</b>	Matt Mornick, Finance Director LaJuan Tuttle, Deputy Finance Director Ben Schumacher, Financial Analyst
<b>COUNCIL LIAISON:</b>	n/a
<b>EXHIBITS:</b>	1. Financial Status Update – Second Quarter FY 2023 2. Ordinance No. 23-12 2023-2024 Budget Amendments
<b>CITY COUNCIL PRIORITY:</b>	4. Focus efforts and actions to be an environmentally and fiscally sustainable, connected, and diverse community.

<b>AMOUNT OF EXPENDITURE</b>	\$ n/a
<b>AMOUNT BUDGETED</b>	\$ n/a
<b>APPROPRIATION REQUIRED</b>	\$ n/a

**EXECUTIVE SUMMARY**

The purpose of this agenda bill is to provide the City Council with a financial status update (Exhibit 1), which includes revenue and expenditure budget actuals for the first six months of fiscal year (FY) 2023. Budget amending Ordinance No. 23-12 (Exhibit 2) summarizes changes the City Council has approved to the 2023-2024 biennial budget since May 16, 2023.

- All funds are performing as expected through the first six months of the year.
- General Fund revenues are up \$2.9 M compared to the prior year, due primarily to interest earnings and sales tax revenues. General Fund expenditures are on track with budget expectations.
- Revenues in all three Utility Funds are up \$980,000 from the prior year due to interest earnings and rate increases implemented on January 1, 2023.
- Expenditures in the Utility Funds are within budget expectations. Many large capital improvement projects are either in the design phase or in the early stages of construction as of June 2023.

## ISSUE/DISCUSSION

The financial status update (Exhibit 1) includes detailed analysis on the City’s revenue and expenditure actuals from January 1 through June 30, 2023. The budget reflected in the update includes budget amendments adopted by ordinance through May 16, 2023 (see [Ordinance No. 23-06](#)).

General Fund revenues ended the quarter at \$20.3 M, which meets budget expectations and is higher than the same period of the prior year. General sales tax revenues are up \$455,000 primarily due to higher-than-expected returns across a handful of business sectors as well as revenues related to the construction sector.

High activity in the construction sector is also reflected in City’s the License, permit, and zoning revenues. Revenues through June 2023 are performing well largely due to two high-valuation construction projects currently underway – the Riot Games building in Town Center and the King County pump station and North Mercer sewer upgrades.

Interest earnings through the second quarter of 2023 amount to \$1.1 M, markedly exceeding budget expectations. The Local Government Investment Pool (LGIP) saw a continued increase in interest rates through the second quarter of 2023, ending June at 5.21%. Compared to the 1.03% rate in June 2022, this represents a 4.18% increase.

Increased interest earnings corresponded with changes to the Federal Reserve’s federal funds target rates. Between March 2022 and July 2023, the Federal Reserve raised the funds target rate by more than five percentage points. Changes in the federal funds target rates are the Federal Reserve’s primary tool to implement monetary policy. While increases to the federal funds target rates helped slow the pace of inflation, they also notably increased LGIP’s earnings rate.

Expenditures in the General Fund were \$17.6 million at the end of the second quarter, on par with budget expectations. Expenditures through June are on track with budget expectations and up \$1.7 million from the prior year. The difference can be attributed to costs associated with legal settlements and filling vacant positions. There are higher staffing levels in Police, Fire, and Parks and Recreation as compared to the same period last year, and corresponding increased employee compensation costs tied to inflation.

GENERAL FUND EXPENDITURES ( <i>\$ in millions</i> )	FY 2023	% of	FY 2022	FY 2023	YTD as % of
	AMENDED BUDGET	AMENDED BUDGET	Q2 ACTUALS	Q2 ACTUALS	AMENDED BUDGET
Salaries & Benefits	24.75	69%	10.50	12.18	49%
Supplies	0.89	2%	0.34	0.41	47%
Contract Services	3.73	10%	1.25	1.24	33%
Other Services & Charges	6.19	17%	3.06	3.49	56%
Interfund Transfers Out	0.35	1%	0.76	0.32	93%
<b>TOTAL EXPENDITURES</b>	<b>\$35.91</b>	<b>100%</b>	<b>\$15.91</b>	<b>\$17.65</b>	<b>49%</b>

The Water, Sewer, and Stormwater Utility Funds are operating within budget expectations. Capital project expenditures in the first half of the year are traditionally low, given much of the capital work occurs in late summer through early fall. Work is underway but significant projects, such as the SCADA System Upgrades, remain impacted by supply chain and construction delays.

All other operating and capital funds throughout the City are within budget expectations, and there are no significant variances to either revenues or expenditures.

### **BUDGET AMENDING ORDINANCE**

The budget amending ordinance (Exhibit 2, Ordinance No. 23-12) primarily consists of prior City Council approved adjustments to the 23-24 budget since May 16, 2023. However, two adjustments included in this ordinance have not yet been approved by Council and both are related to spending reserve dollars in the Fleet Fund to replace Police equipment.

The first adjustment involves the replacement of radios as part of the Pacific Sound Emergency Radio Network (PSERN). Funds were originally budgeted in the 21-22 biennium but went unused. Budget was not carried forward at the start of 2023 as expenditure timelines at the time were unknown. This adjustment seeks to re-authorize the once budgeted amount of \$80,000 out of the radio replacement reserve in the Fleet Fund to pay for communication equipment required by the regional PSERN project.

The second adjustment involves the remaining replacement costs relating to three motors for Marine Patrol Vessel 14. These motors were originally ordered late December 2021 yet arrived in August 2023. The \$65,750 installation expense will come from Fleet replacement reserves.

### **NEXT STEPS**

At the October 17, 2023 City Council Meeting, staff will provide the City Council with a mid-biennium update to the revenue forecast. This will help inform and guide discussion on the state of the City's financial position during the mid-biennial 2023-2024 budget update scheduled for November 7, 2023.

### **RECOMMENDED ACTION**

Adopt Ordinance No. 23-12, amending the 2023-2024 Biennial Budget.