



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

**AB 6145
September 6, 2022
Regular Business**

AGENDA BILL INFORMATION

TITLE:	AB 6145: Second Quarter 2022 Financial Status Update, Preliminary 2023-2024 General Fund Revenue Forecast, and 2021-2022 Budget Amendments (Ord. No. 22-16).	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input checked="" type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
RECOMMENDED ACTION:	1. Receive the Second Quarter 2022 Financial Status Update and the Preliminary 2023-2024 General Fund Revenue Forecast. 2. Review and adopt Ordinance No. 22-16 amending the 2021-2022 biennial budget.	

DEPARTMENT:	Finance
STAFF:	Matthew Mornick, Finance Director Ben Schumacher, Financial Analyst
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Second Quarter Financial Status Update 2. Preliminary 2023-2024 General Fund Revenue Forecast 3. Budget Amending Ordinance No. 22-16
CITY COUNCIL PRIORITY:	n/a

EXECUTIVE SUMMARY

The purpose of this agenda bill is to share with the City Council the 2022 Second Quarter Financial Status Update (Exhibit 1) and the Preliminary General Fund Revenue Forecast for 2023-2024 (Exhibit 2). Ordinance No. 22-13 (Exhibit 3) outlines budget amendments for items previously approved by the City Council.

- General Fund revenues are projected to exceed budget estimates in 2022 by \$1 M, due to higher-than-expected Sales Tax and B&O tax revenues as well as expenditure savings due to position vacancies.
- The unassigned General Fund balance is projected to grow from \$4 M at the end of 2021 to \$5.4 M by December 2022.
- The Preliminary General Fund Revenue Forecast will serve as the foundation for the 2023-2024 proposed preliminary budget which the City Manager will transmit to the City Council at the end of September.
- One of the significant factors in developing the 2023-2024 budget is inflation. In June 2022, inflation increased to 9.5% relative to June 2021 as measured by the CPI-W for the Seattle region, an annual rate of change unseen in over 40 years.
- Staff compiles budget adjustments as they take place throughout the year into a budget amending ordinance, which accompanies each quarterly financial status update. Ordinance 22-16 (Exhibit 3) outlines minor changes to the General Fund, Youth & Family Services Fund, and the Capital Improvement Fund for the City Council’s approval.

ISSUE/DISCUSSION

2022 SECOND QUARTER 2022 FINANCIAL STATUS UPDATE (EXHIBIT 1)

In keeping with staff's efforts to provide the City Council with quarterly updates on the City's financial position, Exhibit 1 includes financial results for revenue and expenditure categories through June 30, 2022.

Based on the financial data through June, the City has collected \$17.4 million in General Fund revenues, or 50.5% of the revenue budget as amended. Property tax is on track, and general sales tax and utility taxes are tracking better than anticipated when last reviewed in April.

General Fund expenditures are within budget estimates at the end of June. Total expenditures of \$15.9 million are 45% of the budget as amended. Total expenditures are \$807,565 more than the same period in 2021 reflecting the increase in salary and benefit expenditures from filling vacant budgeted FTE positions.

Salary and Benefit costs are tracking lower at 44% of the amended budget at the mid-point of the year, which is due to position vacancies. Other services and charges are at 55% – which includes insurance, utilities, jails, and intergovernmental costs – and are tracking high at the midpoint of the year. Interfund transfers are higher than expected due to a transfer to fund the Finance Software Replacement project (Ord. No. 22-04) and a second transfer to the Firefighter's Pension Fund to pay down long term liabilities. All other expenditure categories are below budget expectations through June and are projected to remain within budget expectations through year-end.

General Fund Expenditures (\$ in millions)	2022 Amended Budget	% of Total Amended Budget	Actuals as of June 30, 2021	Actuals as of June 30, 2022	YTD Expense as % of Amended
Salaries & Benefits	23.90	68%	10.10	10.50	44%
Supplies	0.93	3%	0.28	0.34	37%
Contract Services	3.84	11%	1.30	1.25	33%
Other Services & Charges	5.57	16%	2.79	3.06	55%
Interfund Transfers Out	1.05	3%	0.64	0.76	72%
TOTAL EXPENDITURES	\$35.29	100%	\$15.10	\$15.91	45%

The City's Water, Sewer, and Stormwater Utility funds are operating well within budget expectations. Capital projects across the utility funds continue, though at a slower pace than originally anticipated due to continuing supply chain issues plaguing project timelines.

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

PRELIMINARY 2023-2024 GENERAL FUND REVENUE FORECAST (EXHIBIT 2)

At the end of FY 2021, the General Fund had a \$2.6 M revenue surplus. This was largely due to corrective measures taken to right-size the budget during the ongoing Pandemic and the receipt of American Rescue Plan Act (ARPA) funds.

With an additional six months of data from the first half of 2022, the September forecast projects revenues in the General Fund will exceed amended budget figures by 3% by year-end. The increase in 2022 bottom-line revenues is the result of many economic trends in 2021 continuing through the first half of 2022.

Despite these higher-than-expected revenue trends in 2022, the forecast anticipates revenue growth rates will slow through the end of this year and decline relative to 2021 and 2022 revenues over the 2023-2024 biennium.

Exhibit 2 summarizes the revenue forecast by category and anticipates General Fund revenue reaching a plateau then slightly declining in the latter part of the coming biennium, from \$33.4 M in 2023 to \$32.3 M in 2024.

ORDINANCE NO. 22-16 AMENDING THE 2021-2022 BIENNIAL BUDGET (EXHIBIT 3)

Staff compile budget adjustments as they take place throughout the year into a budget amending ordinance, which accompanies each quarterly financial status update. Ordinance 22-16 (Exhibit 3) outlines minor changes to the General Fund, Youth & Family Services Fund, and the Capital Improvement Fund for the City Council's approval.

NEXT STEPS

The revenue forecast will serve as the foundation for the 2023-2024 proposed preliminary budget which the City Manager will transmit to the City Council at the end of September. Staff is committed to closely monitoring financial data as it becomes available and will revise the forecast and notify the City Council and the community as circumstances change.

RECOMMENDED ACTION

1. Receive the Second Quarter 2022 Financial Status Update and the Preliminary 2023-2024 General Fund Revenue Forecast.
2. Review and adopt Ordinance No. 22-16 amending the 2021-2022 biennial budget.