

**PRELIMINARY 2023-2024
GENERAL FUND REVENUE
FORECAST**

SEPTEMBER 6, 2022

INTRODUCTION

The General Fund Revenue Forecast provides an early look at projected revenues for the 2023-2024 biennium. The revenue forecast is based on fiscal year 2021 and the first six months of 2022 revenue actuals, along with the latest local, regional, and national information available.

The forecast outlines the basis for the 2022 year-end revenue outlook, the underlying assumptions, and the anticipated impacts to revenues for the upcoming biennium. The September forecast does not project a recession, rather the slowing of growth in the latter half of 2022 with a gradual return to growth rates akin to pre-pandemic levels.

Also included is a forecast for Real Estate Excise Taxes as well as projected revenue activity in the Youth and Family Services Fund.

GENERAL FUND

2022

Amended Revenue Budget

\$32.0 million

2022 Revenue Forecast

\$33.1 million

2023 Revenue Forecast

\$33.4 million

2024 Revenue Forecast

\$32.3 million

001 - GENERAL FUND (\$ in thousands)	2022 Amended Budget	2022 Forecast	Diff. from Amended	2023 Forecast	2024 Forecast
REVENUES					
01-PROPERTY TAX	13,215	13,439	223	13,673	13,163
02-GENERAL SALES TAX	5,116	5,773	657	5,484	5,210
03-UTILITY TAXES	5,147	5,298	151	5,224	4,804
04-LICENSE, PERMIT, AND ZONING FEES	2,728	2,599	(129)	2,563	2,527
05-B&O TAXES	483	728	245	706	706
06-PARK AND RECREATION	1,030	913	(117)	1,339	1,414
07-EMS REVENUES	1,707	1,707	0	1,798	1,872
08-COST ALLOCATION	840	840	0	856	872
09-INTERFUND TRANSFERS	0	0	0	0	0
10-SHARED REVENUES	1,317	1,381	64	1,354	1,314
11-MUNICIPAL COURT	257	159	(98)	175	193
12-MISCELLANEOUS REVENUES	224	260	36	245	237
13-INTEREST EARNINGS	25	11	(14)	11	11
TOTAL REVENUES & SOURCES	\$32,090	\$33,109	\$1,019	\$33,428	\$32,323

TOTAL EXPENDITURES & USES	\$35,296	-	-	-	-
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Pending Further Analysis

Property Tax

The 2022 Adopted Budget assumed \$13.2 M in property tax revenue, representing 41% of total General Fund revenues. This is a stable revenue source with payments due in April and October of each calendar year.

Revenues through June are tracking slightly higher than 2022 budget due to King County final assessed valuation and value of new construction for Mercer Island are both higher than the adopted budget figures. As a result, the forecast assumes property tax revenues will slightly exceed budget projections by year-end. For 2023 and 2024, the forecast assumes the City will assess a property tax increase of the statutorily allowed 1% of the previously levied amount (i.e., 2022 Adopted) plus new construction each year.

Note the decline in property tax revenues in 2024 corresponds with the General Fund portion of the Parks Levy set to expire at the end of December 2023. The 2023-2024 Budget document will be updated in November to reflect the outcome of the parks levy measure.

Sales Tax

The 2022 Amended budget assumed \$5.1 M in general sales tax revenues, representing 16% of total General Fund revenues. Sales tax earnings in 2021 were \$5.3 M, a record high for Mercer Island. Sales tax revenues for the first six months of 2022 were 5.3% greater compared to the same period in 2021, amounting to \$131,385 more in revenues.

The increase in sales tax activity through June 2022 is tied to inflation, which directly impacts sales tax revenues given it is typically passed on in higher prices. With inflation considered, the September forecast projects a slowdown in consumer spending for the remainder of 2022. Staff anticipates sales tax revenues will end the year at \$5.7 M and begin to slide in 2023, returning to pre-pandemic revenue levels in 2023 and 2024.

Utility Taxes

The 2022 Amended Budget assumed \$5.1 million in utility tax revenues, representing 16% of total General Fund revenues. This revenue stream is, for the most part, not subject to economic volatility. The September forecast assumes utility tax revenues remain on track with actuals from January through June and finish the year slightly above budget estimates.

In 2023, staff anticipates utility tax revenues will hold relatively flat with minor declines in telephone and cellular sectors. The notable drop in 2024 is due to the 2.7% temporary increase in utility taxes expiring October 31, 2023 (Ordinance No. [20C-20](#)).

License, Permits, and Zoning Fees

The 2022 Amended Budget assumed \$2.7 million in license, permit, and zoning revenues, representing 9% of total General Fund revenues.

Revenues in 2021 were at a five-year high due to a large one-time receipt of funds related to the Xing Hua property development, an updated permit fee schedule, better employee time tracking for permit-related services, and completion of a backlog of work resulting in a higher-than-normal volume of processed permits.

Excluding the Xing Hua project, revenues for the first six months of 2022 are tracking slightly higher than the same period in 2021. This activity stems from strong development activity with many housing permits in the pipeline and no shortage of demand for residential and commercial development.

The Puget Sound Economic Forecaster projects permit activity within the region to subtly decline 2-3% over the next two years. As such, the September forecast assumes no Town Center development and projects FY 2022 revenues will track slightly lower than 2021 and hold relatively flat in 2023 and 2024.

Business and Occupation (B&O) Taxes

The 2022 Amended Budget assumed \$483,200 in B&O tax revenue, representing 2% of total General Fund revenues. B&O tax is paid annually unless a business earns greater than \$1 million annually in gross receipts, in which case the tax is paid quarterly. Most B&O tax receipts are received on an annual basis, filed before April 15 for the year prior.

Though the Pandemic has significantly impacted the business community, B&O tax revenues have trended upward since 2019, when the City transitioned to the Washington State's Business Licensing Service in 2019. This has resulted in better tracking of businesses eligible to pay B&O tax revenues.

The September forecast assumes 2022 B&O tax revenues will increase 50% above adopted budget estimates and remain flat in the upcoming biennium.

Parks & Recreation Revenues

The 2022 Amended Budget assumed \$1 M in Parks and Recreation revenues, representing 3% of total General Fund revenues. This includes revenues from community center rentals, recreation programming, and park facility rentals coming back online per the Recreation Reset Strategy approved by the Parks Commission and City Council in the spring and summer of 2021.

The September forecast assumes 2022 revenues will end the year just shy of \$1 M in revenues driven mainly by field rentals, MICEC rentals, and youth and teen camps. Revenues in the upcoming biennium are likely to incrementally improve year over year as the Recreation Division continues to recover services.

Emergency Medical Service (EMS) Revenues

The 2022 Amended Budget assumed \$1.7 million for EMS revenues, representing 5% of total General Fund revenues.

This revenue stream includes the annual contribution from the King County EMS levy, an annual EMS utility charge adopted annually with utility rate changes, and revenues from emergency medical transport fees, also known as the Ambulance Transport Fee.

The September forecast projects revenues are on track with budget estimates for 2022. For the upcoming biennium, EMS revenues will increase with revenues from the Ground Emergency Medical Transportation program (GEMT) and use of Mobile Integrated Health (MIH) funds from King County Emergency Medical Services (KCEMS) levy, the latter addressing needs of low-acuity 9-1-1 callers and vulnerable community members.

Cost Allocation

The cost allocation revenue categories recover overhead costs from the Utility Funds through internal transfers between Funds. The 2022 Amended Budget assumed roughly \$840,000, representing 3% of total General Fund revenues.

Because of the technical nature of these revenues, this forecast assumes a minor adjustment through the end of the year and in 2022 based on assumptions for salaries, benefits, and facility costs. Projections for 2023 and 2024 are based on recent historical trends and will be adjusted as needed in the upcoming biennium.

Shared Revenues

The 2022 Amended Budget assumed \$1.3 M in shared/intergovernmental revenues, representing 4% of total General Fund revenues. This category combines a variety of revenues and includes State shared tax revenues, grants, and the Department of Transit (WSDOT) for landscape services agreement for Aubrey Davis Park.

After reviewing revenue actuals for the first six months of 2022, the September forecast reflects a slight increase through the end of 2022 due to increase in liquor and marijuana excise tax revenues, with revenues forecasted to modestly decrease over the coming biennium.

Municipal Court Revenues

The 2022 Amended Budget assumed \$257,400 in General Fund revenue collected from fines, forfeitures, fees, costs, and penalties associated with the enforcement of local and State law.

Court revenues are highly dependent on caseload and the Municipal Court is not yet tracking with pre-pandemic caseloads. Revenues in the first six months of 2022 are 37% less than the same period in 2021. The September forecast projects the Municipal Court will earn revenues 17% less than 2021 budget actuals and assumes revenues will stabilize as the Municipal Court administration establishes new operating efficiencies.

Miscellaneous Revenues

The 2022 Amended Budget assumed \$224,000 in miscellaneous revenues in the General Fund. This category includes a variety of revenues. The September forecast assumes a minor increase above FY 2022 amended budget estimates resulting from payments for anticipated judgment settlements, disability reimbursements, and cell tower leases. This revenue category is forecasted to decrease in the next biennium.

Interest Earnings

The 2022 Amended Budget assumed \$25,000 in General Fund revenue from interest earned on the City's holdings. The City pools its cash and invests it in the Washington State Local Government Investment Pool (LGIP). Investments in 2022 are on track to bring in \$11,000 in interest earnings. The September forecast considers the projected yield in the LGIP and projects interest earnings will remain flat in 2023 and 2024.

GENERAL FUND EXPENDITURES

The 2022 Amended Expenditure Budget is \$35.2 M. As of date of publication, the forecast projects the 2022 expenditure budget to end within budget estimates.

NON-GENERAL FUND REVENUE SOURCES

The following details additional revenue streams and underlying assumptions through year-end and into the next biennium.

Real Estate Excise Tax (REET)

REET revenues are used to support the City's Street and Capital Improvement Funds. This revenue stream is susceptible to swings in the real estate market.

REET revenues for FY 2021 were the highest on record, largely due to a historically high volume of homes sold and two commercial property sales that generated a combined \$1.8 million in revenue. The total number of property sales in 2021 were 530, compared to 445 recorded in 2020.

Median sale price for residential properties increased from \$1.95 M in 2021 to \$2.27 M in 2022 (first six months of the year). Although prices continue to rise, the number of homes sold in the first half of 2022 was 32% less than the prior year.

To counter inflation, the Federal Reserve has increased interest rates to curb spending. While the increase in interest rates is likely to slow demand for real estate gradually towards pre-pandemic levels, the real estate sector on Mercer Island is expected to remain strong.

This forecast assumes 2022 REET revenues will increase 18% when compared to FY 2022 amended budget estimates, with revenues in 2023 and 2024 returning to pre-pandemic levels. This projection is informed by the average price of homes sold in 2022 to date, the number of homes in the past three years, and the estimated number of homes that will sell based on historical seasonality trends.

(\$ in thousands)	2022B	2022F	Diff.	2023F	2024F
REET	\$3,872	\$4,573	\$700	\$4,344	\$4,127

YOUTH & FAMILY SERVICES (YFS) FUND

160 - YOUTH & FAMILY SERVICES FUND (\$ in thousands)	2022 Amended	2022 Forecast	Diff. from	2023 Forecast	2024 Forecast
01-CHARGES FOR SERVICES	150	150	0	150	150
02-MIYFS CONTRIBUTIONS	300	515	215	300	300
03-THRIFT SHOP	1,675	1,424	(251)	1,566	1,723
04-FEDERAL GRANTS	349	349	0	350	225
05-STATE & COUNTY GRANTS	38	38	0	38	38
06-EMERGENCY ASSISTANCE	75	75	0	60	60
07-FOOD PANTRY	10	10	0	100	100
08-ARPA SUPPORT	872	0	(872)	0	0
09-MISCELLANEOUS REVENUES	171	461	289	40	40
TOTAL REVENUES & SOURCES	\$3,640	\$3,021	(618)	\$2,604	\$2,636

EXPENDITURES, BY DEPARTMENT GROUP					
01-YOUTH & FAMILY SERVICES DIVISION	1,953	2,168	(215)	-	-
02-THRIFT SHOP DIVISION	1,287	952	335	-	-
TOTAL EXPENDITURES & USES	\$3,240	\$3,120	\$120	-	-

Pending Further Analysis

Charges for Services

The 2022 Amended Budget included \$150,000 revenues from additional YFS services, representing 4% of YFS Fund revenues. These revenues include fees from family counseling services as well as the Mercer Island School District's \$60,000 contribution to support the school counseling program.

Revenues are on track through the end of 2022 and are held constant in the upcoming biennium.

Youth & Family Services Foundation

The Youth and Family Services Foundation (MIYFS) provides critical funding to support human services provided through the Youth & Family Services division. In 2022, MIYFS provided an additional \$215,000 in addition to the historically provided \$300,000. A total of \$100,000 was set aside to hire ahead for the Middle School Counselor position, \$15,000 to hire a trauma-informed organizational consultant, and \$100,000 for the emergency assistance program.

The September forecast assumes the 2023 and 2024 funding levels will remain at \$300,000, although staff are in discussions with the Foundation about enhanced support, particularly to sustain a second middle school counselor position.

Mercer Island Thrift Shop

During the 2021-2022 mid-biennial budget process, the City Council amended the Thrift Shop's 2022 expenditure budget to facilitate the shop's rebuilding phase after operations were heavily impacted by the Pandemic. With the revised \$1.2 M expenditure budget, the November 2021 forecast projected the Thrift Shop would realize \$1.7 M in gross sales in 2022.

Revenues in the first six months of 2022 tracking slightly below revenue estimates. With new management, staff and volunteer training initiatives, and store improvements, the Thrift Shop is forecasted to generate \$1.42 M in gross receipts by year-end, with revenues projected to increase 10% each year in the upcoming biennium.

State and Federal Grants

The 2022 Amended Budget assumed \$387,000 in intergovernmental grants, representing 11% of YFS Fund revenues. These restricted grant revenues are reimbursement-based. Any unspent funds carry-over to the next fiscal year for the life of the grant.

The September forecast assumes no change to this revenue stream and projects similar revenues in 2023 and 2024.

YFS Fund – Miscellaneous Revenues

The 2022 Amended Budget assumed \$162,000 in miscellaneous revenues, representing 5% of YFS Fund revenues. Revenues include roughly \$33,000 resulting from [HB 1406](#). Originally these funds were designated to support the ARCH Housing Trust Fund. During the 2021-2022 biennial budget process, the City Council re-directed these funds to MIYFS Emergency Rent Assistance.

In 2022 this revenue category is forecasted to generate \$323,000 by year-end. This is due to one-time funds being moved in June of this year from the YFS Endowment Fund to Fund 160 to support the creation of an operating reserve equal to six months of expenditures.

The September forecast assumes the City will receive HB 1406 funding in both 2023 and 2024.

CONTINGENCY FUND

The current balance of the City's Contingency Fund is \$3.9 M. The current balance in the Contingency Fund is 12.4% of the adopted 2022 expenditure budget. Per the City's financial management policies, this figure will be adjusted at the end of the current fiscal year.