



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

**AB 6542
October 1, 2024
Regular Business**

AGENDA BILL INFORMATION

TITLE:	AB 6542: Financial Status Update for the Second Quarter 2024 and Budget Amending Ordinance	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input checked="" type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
RECOMMENDED ACTION:	Receive the FY 2024 Second Quarter Financial Status Update and adopt Ordinance No. 24-13, amending the 2023-2024 Biennial Budget.	

DEPARTMENT:	Finance
STAFF:	Matt Mornick, Finance Director LaJuan Tuttle, Deputy Finance Director Ben Schumacher, Financial Analyst
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Financial Status Update – Second Quarter FY 2024 2. Ordinance No. 24-13 – 2023-2024 Budget Amendments
CITY COUNCIL PRIORITY:	4. Focus efforts and actions to be an environmentally and fiscally sustainable, connected, and diverse community.

EXECUTIVE SUMMARY

The purpose of this agenda bill is to provide the City Council with a financial status update for the second quarter of fiscal year (FY) 2024.

- All funds are performing as expected through the first half of the fiscal year. Analysis across all funds is provided in the FY 2024 Second Quarter Financial Status Update (Exhibit 1).
- Budget amending Ordinance No. 24-13 (Exhibit 2) outlines changes to the 2023-2024 biennial budget since May 21, 2024 along with staff’s recommendation for the disposition of the remaining American Rescue Plan Act (ARPA) funds.
- Staff also recommends the City Council appropriate \$1,000,000 of unassigned fund Balance from the General Fund to the Municipal Facilities Replacement Reserve, and appropriate \$785,000 from the Municipal Facilities Replacement Reserve for project management, engineering, and schematic design services for the Public Safety and Maintenance (PSM) facility.

As a reminder, FY 2024 is the first year in which the City will use the cash basis accounting method for financial reporting, as defined by the Washington State Auditor’s Office (SAO). The change does not affect total revenues, only the timing of when those revenues are recognized as received, impacting year-over-year comparisons in the financial status update during the 2024 transition year.

ISSUE/DISCUSSION

Impact of Transition to Cash Basis Reporting

Beginning January 1, 2024, the City implemented changes in accounting procedures to align with cash basis reporting as defined by the SAO. In 2024, certain revenues that were previously reported on an accrual basis with each quarterly Financial Status Update have switched to a true cash basis. Staff expects the transition to cash basis reporting to have minor impacts throughout the year and will attempt to highlight the related changes with each quarterly financial update.

Most notable impacts in 2024 involve the timing of receipt for State shared revenues (sales tax, fuel taxes), Real Estate Excise Taxes, and limited external utility taxes. Distributions of these taxes received in January 2024 were accounted for as revenue that was earned and reported in December 2023. These receipts are not being reported again in any 2024 Financial Status Update, which impacts year-to-year comparisons, but not actual revenues received throughout the 2024 transition year.

Financial Status Update Q2 2024

The Financial Status Update (Exhibit 1) includes detailed analysis on the City's revenue and expenditure actuals from January 1 through June 30, 2024. The budget reflected in the update includes budget amendments adopted by ordinance through May 21, 2024 (see [Ordinance No. 24-11](#)).

General Fund revenues ended the quarter at \$19.3 million, which are within budget expectations but below the same period of the prior year due to the change in accounting procedures. General sales tax revenues are consistent with FY 2023 numbers when comparing month-to-month returns due to higher-than-expected production across most business sectors, especially revenues related to the retail sector. Sales tax increases are tied to the lingering effects of inflation and the strength of the regional economy at this point in time.

Interest earnings in the first half of 2024 amount to \$1.1 million, markedly exceeding budget expectations. The Local Government Investment Pool (LGIP) saw a consistent increase in yields throughout 2023 and the higher yields have maintained in the first half of 2024 ending June at 5.43%, which represents a 0.22% increase compared to June 2023.

Expenditures in the General Fund were \$21.38 million at the end of the second quarter, on par with budget expectations as outlined in Figure 1 on the following page. Expenditures are up \$3.7 million from the prior year. "Salaries & Benefits" appear lower than the prior year due to the new partnership with Eastside Fire & Rescue (EFR) and how expenditures for fire service personnel are now recorded as costs relating to the "Other Services & Charges" category instead of salary and benefit costs.

The increase in expenditures over the prior year as outlined in Figure 1 is due to two factors: one-time transition costs for services provided by EFR in "Other Services & Charges" and a \$2.4 million interfund transfer to the Municipal Facility Replacement Fund as outlined in the FY 2023 Year-End Financial Status Update ([AB 6451](#)) in "Interfund Transfers Out."

GENERAL FUND EXPENDITURES (<i>\$ in millions</i>)	FY 2024 AMENDED BUDGET	% of AMENDED BUDGET	FY 2023 QUARTER 2 ACTUALS	FY 2024 QUARTER 2 ACTUALS	YTD as % of AMENDED BUDGET
Salaries & Benefits	26.40	62%	12.18	9.56	36%
Supplies	0.83	2%	0.41	0.31	37%
Contract Services	4.10	10%	1.24	1.07	26%
Other Services & Charges	8.13	19%	3.48	7.66	94%
Interfund Transfers Out	2.90	7%	0.32	2.78	96%
TOTAL EXPENDITURES	\$42.35	100%	\$17.64	\$21.38	50%

Figure 1

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 the summer months through the early fall. However, major project work is underway including the Water Meter Replacement Implementation and Water System Improvements, among others.

All other operating and capital funds throughout the City are within budget expectations, and there are no significant variances to either revenues or expenditures unless otherwise stated with the transition in accounting procedure.

Unassigned Fund Balance in the General Fund and PSM Schematic Designs

Staff recommends the City Council appropriate \$1,000,000 of unassigned Fund Balance in the General Fund to the Municipal Facility Replacement Reserve, and appropriate \$785,000 from the Municipal Facility Replacement Reserve for project management, engineering, and schematic design services for a new Public Safety and Maintenance (PSM) facility, as outlined in Ordinance No. 24-13 (Exhibit 2).

The City completed the pre-design phase of the PSM building and is moving into a more intensive and detailed engineering and design phase. The PSM building will house the Mercer Island Police Department, the Public Works department inclusive of maintenance operations, the City’s Emergency Operations Center, and select support programs common to included departments. The final roster of city departments and programs for inclusion shall be identified through the Schematic Design process.

This work includes site design, site structures design, and site remediation design for outdoor areas accommodating City vehicles, equipment and material storage, vehicle and pedestrian circulation, parking areas for staff vehicles, and general and secured parking areas for MIPD vehicles. Site design includes areas surrounding new facilities, areas required for use by city employees and, where publicly accessible, by the public. Renderings of the proposed facility will inform the City Council and community discussions in context and/or key spaces or conditions as requested by the City. These renderings are expected to be delivered Q2 2025.

ARPA Fund Appropriations

In June 2022, the City received \$7.2 million in total American Rescue Plan Act assistance. A total of \$636,673 remains unappropriated. The City is required to encumber ARPA funds by December 2024, and fully expend them no later than December 2026.

Ordinance No. 24-13 authorizes staff to spend the remaining unspent ARPA funds on facility-related projects before the end of this year. This includes funds that were previously authorized by the City Council that

remain unspent as well as the remaining unassigned ARPA funds of \$636,673. Examples of projects not proceeding that were previously approved by the City Council include creation of a Diversity, Equity, and Inclusion Plan, a program evaluation of the Youth and Family Services Program, and parks property acquisition as outlined in the 2022 PROS plan. Changes outlined in Ordinance No. 24-13 position staff to effectively aim to spend down the remaining unspent ARPA funds before the end of the year.

RECOMMENDED ACTION

Adopt Ordinance No. 24-13 amending the 2023-2024 Biennial Budget.