



REVISED

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

**AB 6357
October 17, 2023
Regular Business**

AGENDA BILL INFORMATION

TITLE:	AB 6357: 2023-2024 Mid-Biennial Budget Revenue Forecast	<input checked="" type="checkbox"/> Discussion Only <input type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
RECOMMENDED ACTION:	Receive report. No action necessary.	

DEPARTMENT:	Finance
STAFF:	Matthew Mornick, Finance Director Ben Schumacher, Financial Analyst
COUNCIL LIAISON:	n/a
EXHIBITS:	1. 2023-2024 Mid-Biennial Budget Revenue Forecast (REVISED)
CITY COUNCIL PRIORITY:	n/a

EXECUTIVE SUMMARY

The mid-biennial budget revenue forecast (Exhibit 1) provides an update on projected revenues at the midway point of the 2023-2024 biennium for the General Fund, the Youth and Family Services (YFS) Fund, and real estate excise tax (REET) revenues.

- General Fund revenues are projected to exceed budget estimates in 2023 by ~~\$5.5 M~~ \$4.6 M, largely due to higher-than-expected sales tax revenues, development service revenues, and interest earnings.
- Revenues and expenditures in the YFS Fund are on track to meet budget expectations. Staff projects the YFS Fund’s operating deficit will be offset with ARPA funds, amounting to \$555,000 in 2023 and \$618,000 in 2024.
- Real Estate Excise taxes are estimated to come in \$624,000 under FY 2023 amended budget estimates.

Overall, the mid-biennial revenue forecast projects General Fund revenues will continue along healthy trendlines through the end of the biennium, largely stabilized by the City’s strategic use of American Rescue Plan Act (ARPA) funds.

BACKGROUND

The City of Mercer Island operates under a two-year budget cycle. In even-numbered years, staff drafts a preliminary budget for the City Council’s review and approval. In odd-numbered years, staff provides the City Council with a mid-biennial budget update on first-year budget activity with an opportunity to revise the budget before entering the second year of the biennium. In both even and odd-numbered years, the Revenue Forecast (Exhibit 1) serves as the starting point for budget deliberations with the City Council every fall.

The Revenue Forecast is an integral part of the two-year budget process. Each year, the Revenue Forecast evaluates the City’s current and future fiscal conditions to inform the City’s policies, strategic decisions, or changes to service levels. It is based on past, current, and projected financial conditions unique to City operations while considering socioeconomic influences at the local, regional, and national level.

The 2023-2024 Mid-biennial Revenue Forecast outlines General Fund revenue activity through the end of biennium and into 2025. It also includes a projection for real estate excise tax revenues and a forecast for the Youth and Family Services Fund.

ISSUE/DISCUSSION

At the end of FY 2022, the General Fund unassigned fund balance was \$1.5 M, due to better than anticipated general sales tax revenues, savings from departmental budgets, and strategic use of the American Rescue Plan Act (ARPA) funds.

With an additional six months of data through June 2023, staff projects revenues in the General Fund will end 2023 at ~~\$39.5 M~~~~\$38 M~~, exceeding amended budget figures by ~~\$5.5 M~~~~\$4.6 M~~ at year-end. The increase in 2023 revenues is the result of many economic trends in 2022 continuing through the first half of 2023. General Fund revenues are projected to remain healthy in 2024 and 2025.

General Fund expenditures are projected to remain within budget expectations through the end of the biennium. It is not until the 2025-2026 biennium that expenditure growth is projected to outpace General Fund revenues.

NEXT STEPS

The Revenue Forecast establishes baseline budget figures to inform mid-biennial budget updates this fall. Below is a schedule of upcoming City Council agenda items related to the mid-biennial budget update:

City Council Meeting	Budget Related Topic
November 7	<i>Study Session outlining the Declaration of Intent for Reimbursement related to a Bond Issuance for the Water Utility scheduled in Q2 2024.</i>
November 21	<i>Public hearing related to Mid-Biennial Budget discussions. Staff will outline proposed changes and updates to the capital and operating budget. Staff will also present the Q3 2023 financial status update along with resolutions and ordinances related to the 2024 property tax levy, the declaration of intent to seek reimbursement, and 2024 NORCOM rates.</i>
December 5	<i>Staff will present for adoption amendments to the 2023-2024 resulting from the Mid-Biennial Budget discussions.</i>

The mid-biennial budget discussion scheduled for November 21 will include an update related to near-term resource needs related to the City Hall closure. Staff will be recommending that unassigned General Fund balance be set aside to address the significant near- and long-term financial needs related to the closure of City Hall.

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

Receive report. No action necessary.