

# AB 6679 & AB 6680

## FY 2024 Year-end Review & Financial Forecast

May 20, 2025



# Agenda

1. **Fiscal Year 2024 Review**
2. **May 2025 Financial Forecast**
3. **Questions**



# AB 6679

## 2024 Year-end Review



# General Fund – Fund Balance

- ❑ **Reserved** fund balances includes the following categories.
  - ❑ **Non-spendable.** Non-cash City inventories.
  - ❑ **Restricted.** Limitations on use set by outside entities.
  - ❑ **Committed.** Long-term limitations set by City Council.
  - ❑ **Assigned.** Earmarked for specific uses by City Council.
- ❑ **Available** is the remaining unassigned balance.

General Fund	Amount
Reserved	
Non-Spendable	\$ 121,857
Restricted	1,846,554
Committed	3,851,613
Assigned	1,233,303
Reserved Subtotal	\$ 7,053,327
Available Balance	\$ 5,284,283
Total Fund Balance	\$ 12,337,610

# Available Fund Balance

- ❑ Result of interest earnings, sales tax, and other miscellaneous revenues exceeding budget expectations.
- ❑ 3.3% expenditure budget (non-personnel) remained at year-end.
- ❑ Available fund balance is the result of prudent year-over-year fiscal management.

General Fund	Amount
<b>Revenues</b>	
Interest Earnings	\$ 2,142,037
General Sales Tax	1,136,602
B&O Tax & Business Licenses	315,954
Miscellaneous Revenues	259,756
<b>Expenditures</b>	
Expenditures under spent	1,429,935
<b>TOTAL</b>	<b>\$ 5,284,283</b>

# Fiscal Management Origins

## **Precedent for General Fund available fund balance at year-end.**

- ❑ FY 2021, 2022, and 2023 resulted in year-end available fund balance.
- ❑ Council set aside \$4.1 M in Municipal Facility Replacement Fund.
  - ❑ Established in 2023 following City Hall closure for future facility needs.
- ❑ Financial Management Policies (adopted 2021) established clear direction to build 2023-2024 budget with shared focus on long-term goals.

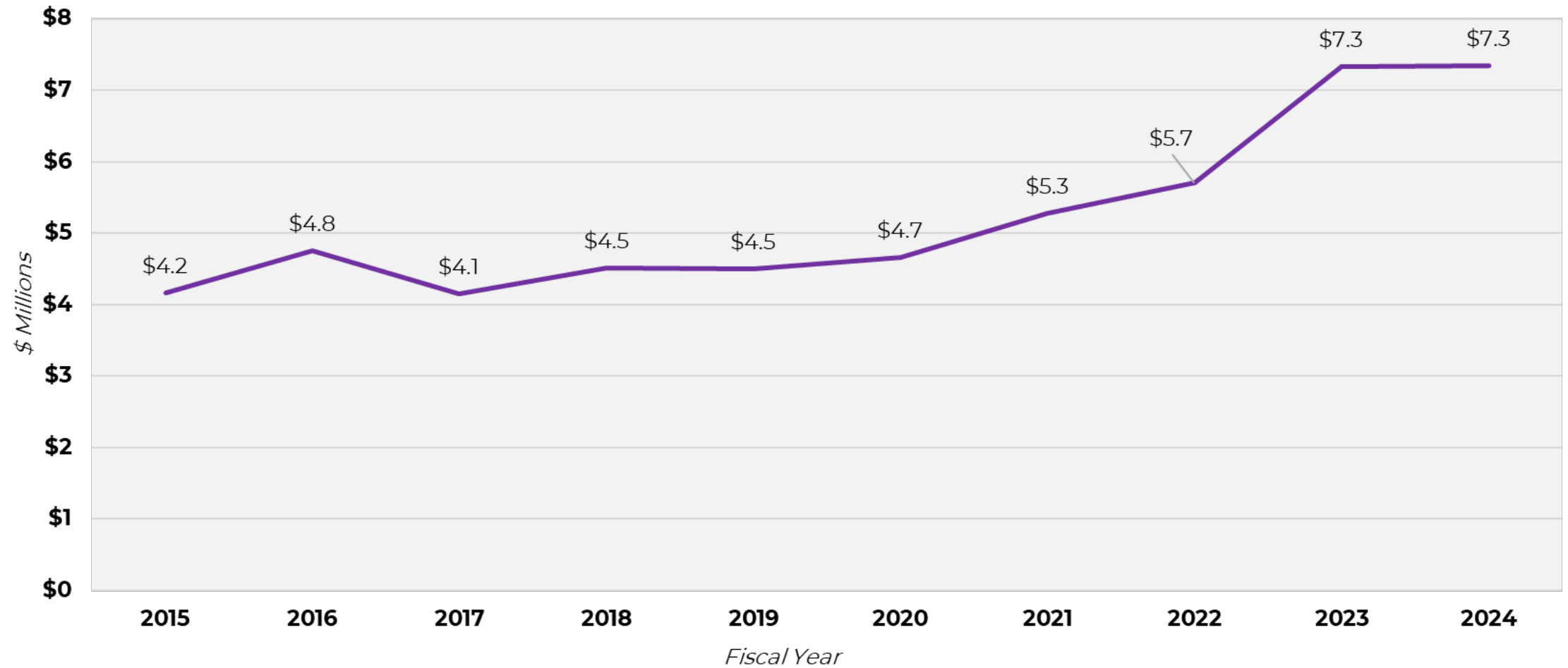
# Fiscal Management Origins

- ❑ Fall 2022 country was emerging from the pandemic and bracing for an economic recession.
  - ❑ August 2022, CPI-W for Seattle/Tacoma region was 9.2%.
  - ❑ May 2022, Federal Reserve began raising the federal funds rate.
- ❑ Financial policies guided the City out of the pandemic, reshaped City operations, and resulted in staff completing significant body of work.
- ❑ Consumer spending did not slow. A recession did not happen.
- ❑ 2024 available fund balance in General Fund is mainly driven by general sales tax and interest earnings.

CPI-W Seattle/Tacoma <i>First Half of the Year</i>		Rate
2024		4.2%
2023		6.5%
2022		8.6%
2021		3.3%
2020		1.9%

# Sales Tax

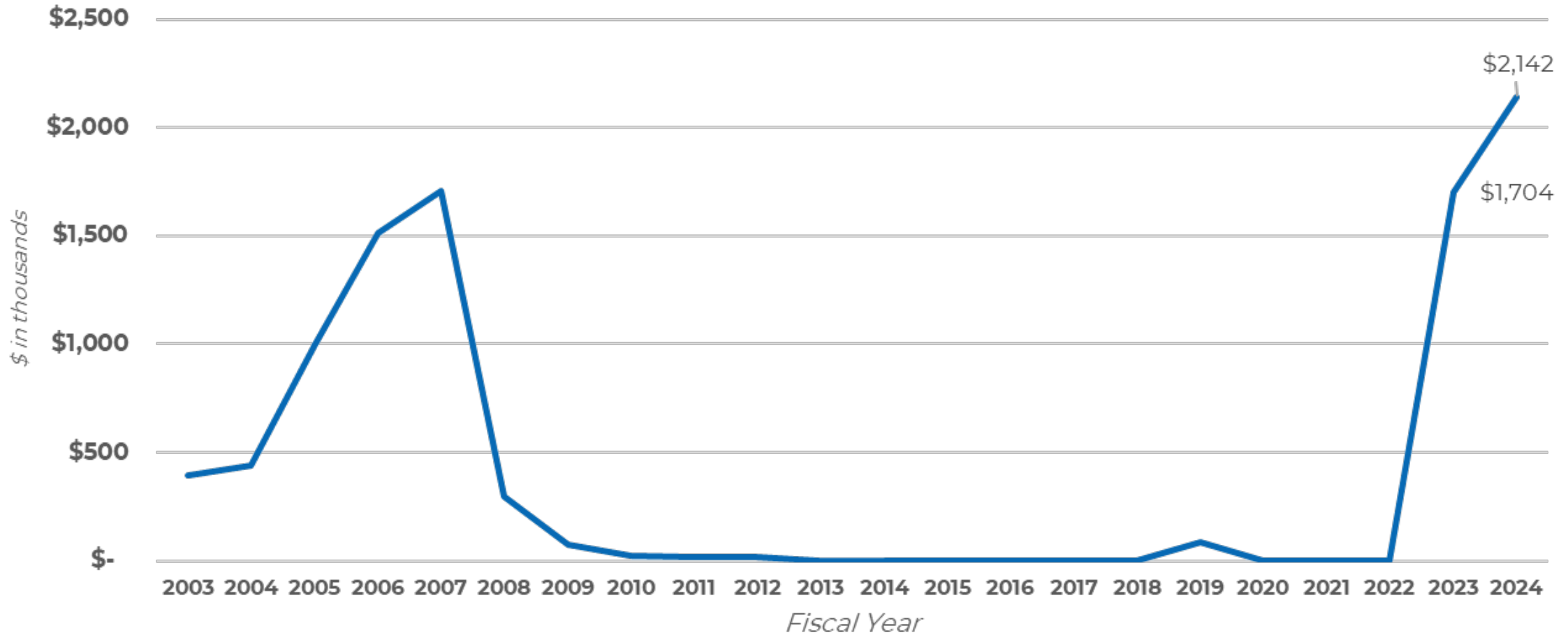
## Total General Sales Tax Revenues





# Annual Interest Earnings

## General Fund



# REET Revenues

- ❑ Primary resource for the Capital Improvement Program.
- ❑ REET divided into the Street and Capital Improvement Funds.
- ❑ Property sales remain low as federal funds rate holds at 4.33%.
- ❑ 2024 year-end revenues were \$3.94 M.
  - ❑ Up \$0.5 M compared to 2023, \$0.2 M below budget expectations.
  - ❑ In 2024, total property sales were 298, up from than 290 in 2023.
- ❑ Keep Council informed ahead of any cash flow challenges.

# ARPA

- ❑ All \$7.2 million in American Rescue Plan Act funds were invested in Mercer Island between 2021 and 2024.
- ❑ \$1.4 million invested in emergency assistance, mental health, and family support services.
- ❑ \$1.8 million invested in City streets, parks, and underground utilities.
- ❑ \$3.0 million supported planning and improvements to city facilities.

# ARPA Investments

Investments <i>\$ in thousands</i>	2021 Actuals	2022 Actuals	2023 Actuals	2024 Actuals	Total
1 Pandemic Legal Impacts	\$ 4	\$ 7	\$ -	\$ -	\$ 11
2 Personnel	-	69	131	188	389
3 Pandemic Response Supplies	-	11	2	2	16
4 Utility Relief Grant Program	-	33	4	-	37
5 City Hall Closure Impacts	-	-	368	1,347	1,715
6 Facility Planning & Improvements	-	-	-	1,267	1,267
7 Parks Maintenance	122	59	5	5	190
8 Recreation Restart Initiative	-	347	-	-	347
9 Aubrey Davis Park Asphalt Repairs	-	-	-	35	35
10 Luther Burbank Sport Courts	-	-	-	643	643
11 Bike Skills Park	-	-	-	303	303
12 Open Space Improvements	-	-	-	131	131
13 Sustainability Initiatives	-	-	20	119	139
14 Water & Sewer System Improvements	-	344	217	110	672
15 Youth & Family Services	-	200	522	618	1,341
<b>Total ARPA Investment</b>	<b>\$ 126</b>	<b>\$ 1,071</b>	<b>\$ 1,270</b>	<b>\$ 4,768</b>	<b>\$ 7,235</b>



# Fire & EMS Services

- ❑ 2024 first year of the partnership with Eastside Fire & Rescue.
- ❑ Fire & EMS expenses were \$9.1 M, up \$0.6 M relative to 2023 due to \$370,000 in one-time costs and \$242,000 from a 4.5% cost of living adjustment.
- ❑ Savings realized in 2024 include \$450,000 in overtime, liability insurance, and building maintenance costs.
  - ❑ Per cost allocation policy, estimate \$232,000 of General Fund resources were no longer committed to supporting Fire & EMS.
- ❑ Maintained service levels and strong partnership with regional service provider.

# Budget Carry Forwards

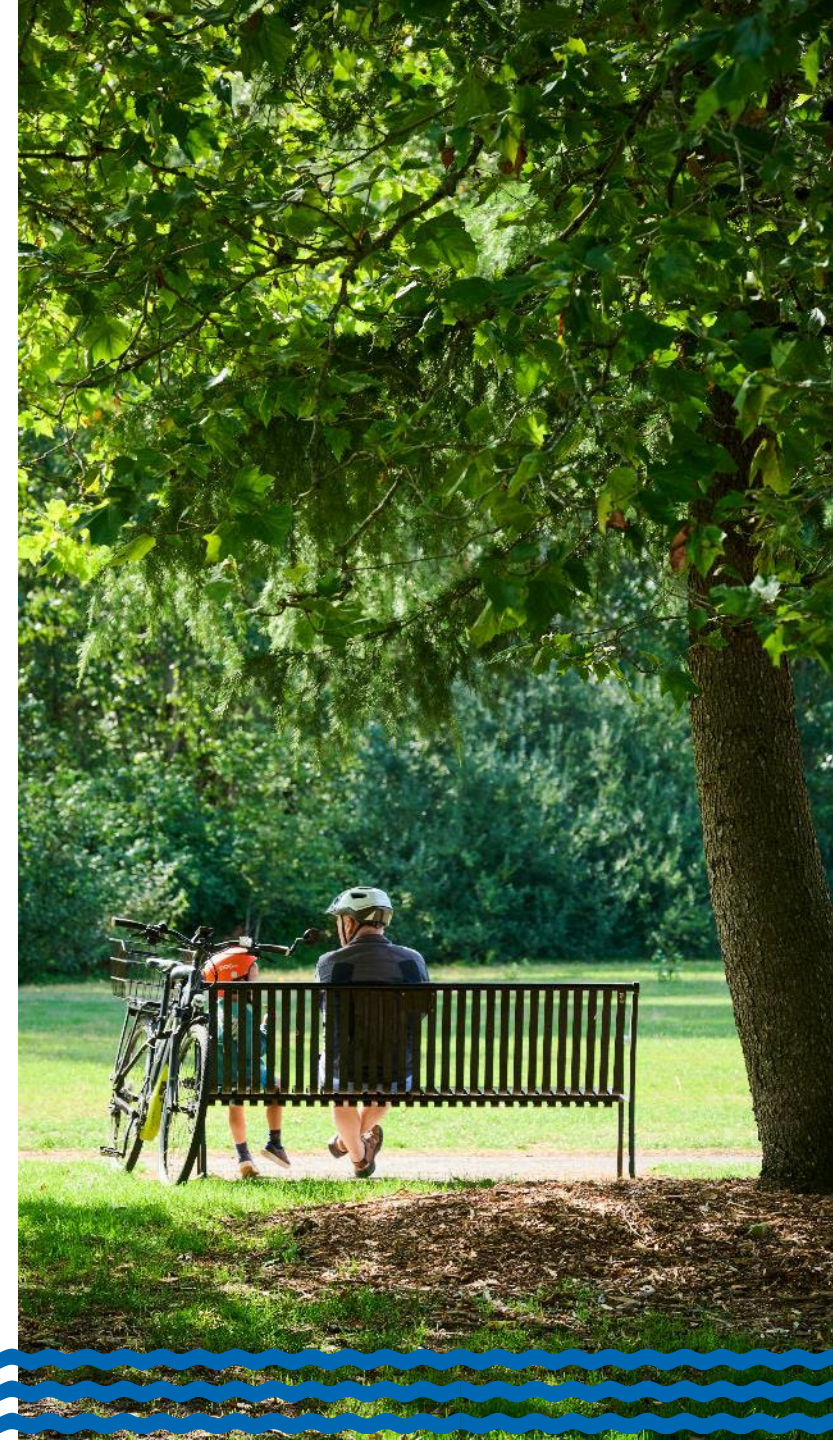
- ❑ Funding from prior budget “carried forward” to the current budget to finish work underway but not completed by Dec 2024.
- ❑ Detail presented in Ordinance No. 25-10.

Fund		Resources
<i>\$ in thousands</i>		
001	General Fund	\$ 151
110	Street Fund	1,455
140	Municipal Arts	17
320	Capital Improvement	2,227
330	Technology & Equipment	202
350	Municipal Facility Replacement	785
410	Water Utility	10,411
420	Sewer Utility	3,348
430	Stormwater Utility	282
510	Equipment Rental	196
<b>Total</b>		<b>\$ 19,074</b>

# Contingency Fund Balance

- ❑ As of December 31, 2024, balance is **\$4,871,961**, at 13.1% of 2025 General Fund adopted expenditure budget.
- ❑ Funding target is 12.5% per the Financial Management Policies.
- ❑ Council action is required to adjust current balance.
- ❑ Staff recommends maintaining current balance and revisiting during mid-biennial budget process this fall.

# Questions?





# AB 6680 Financial Forecast



# Why Forecast in May?

- ❑ In general, City's financial performance thru early 2025 is the result of stable economic conditions.
- ❑ Outside of the financial data are signals of caution.
  - ❑ Proposed federal spending cuts with shifting US trade policies.
  - ❑ Washington state grappling with a budget deficit.
- ❑ City projecting a structural deficit in 2027 in operating funds.
- ❑ Ensure City finances are transparent for upcoming policy discussions heading into the next biennium.

# May Forecast

## Key Considerations

- ❑ Focus on the General and Youth & Family Service Funds.
- ❑ Analysis based on financial from 2022 thru Q1 2025.
- ❑ Multiple scenarios with emphasis on available fund balance.

# General Fund Forecast

## Three scenarios presented based on heightened uncertainty

1. **Favorable.** Extends recent positive growth rates thru end of 2025.
2. **Most Probable.** Based on financial analysis of key indicators through Q1 2025.
3. **Unfavorable.** Considers scale of disruption occurring in real-time.



# General Fund Forecast

## Probable Scenario – Key Takeaways

- ❑ Sales tax revenues and interest earnings exceeding budget expectations through the first quarter of 2025.
  - ❑ Project revenues \$1.2 M above budget estimates in current biennium.
- ❑ Expenditures projected to meet budget estimates.
- ❑ In 2027, expenditures projected to outpace revenues by \$1.6 M.
- ❑ Fund stabilized with prior year available fund balance until 2029.

# General Fund – Probable Scenario

RESOURCES	2025F	2026F	2027F	2028F	2029F	2030F
Beginning Fund Balance (Net of Reserves)	\$ 2,500,000	\$ 3,472,082	\$ 3,906,320	\$ 2,350,961	\$ 190,412	\$ (2,413,925)

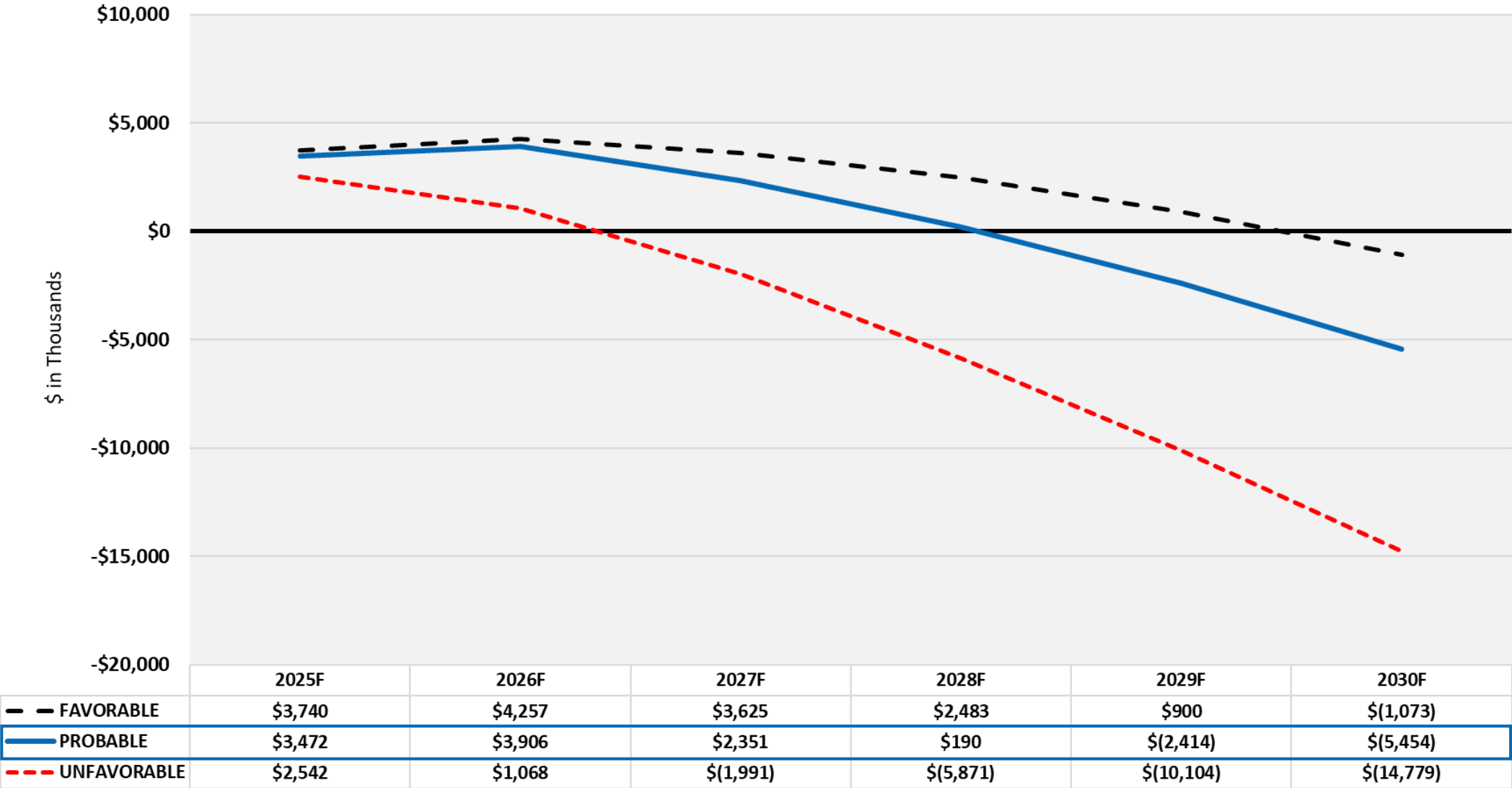
REVENUES						
Appropriated Fund Balance	391,273	645,938	-	-	-	-
Property Tax	13,960,148	14,199,616	14,443,233	14,691,071	14,943,203	15,199,704
General Sales Tax	7,765,271	8,075,882	8,318,159	8,567,703	8,824,735	9,089,477
Utility Taxes	5,375,656	5,514,905	5,626,495	5,754,425	5,887,853	6,026,965
Business & Occupation Tax	968,778	985,300	985,300	985,300	985,300	985,300
Parks & Recreation Programs	1,421,500	1,434,250	1,447,934	1,462,019	1,476,299	1,491,306
Overhead Allocation Charges	2,411,870	2,527,397	2,156,781	2,217,069	2,279,768	2,344,975
Licenses & Permits	243,961	244,556	246,349	248,170	250,017	251,892
State Shared Revenues	1,314,600	1,287,759	1,276,322	1,295,044	1,326,057	1,358,311
Miscellaneous Revenues	2,792,153	2,846,281	2,927,471	3,011,240	3,097,671	3,186,849
Interest Earnings	1,585,612	1,363,871	1,022,903	869,468	825,994	801,215
Municipal Court	175,000	185,000	190,550	196,267	198,229	200,211
Interfund Transfers	-	-	-	-	-	-
<b>Total Revenues</b>	<b>38,405,821</b>	<b>39,310,756</b>	<b>38,641,497</b>	<b>39,297,775</b>	<b>40,095,125</b>	<b>40,936,205</b>
<b>Total Fund Resources</b>	<b>40,905,821</b>	<b>42,782,838</b>	<b>42,547,817</b>	<b>41,648,736</b>	<b>40,285,538</b>	<b>38,522,280</b>

EXPENDITURES						
Personnel	17,400,311	18,258,307	18,831,782	19,423,438	19,993,962	20,581,558
Supplies	841,820	866,260	990,385	1,019,500	1,049,362	1,080,025
Contractual Services	9,311,130	9,631,760	9,918,813	10,214,425	10,500,428	10,794,440
Other Services & Charges	7,138,596	7,382,057	7,717,742	8,062,827	8,417,576	8,782,260
Interfund Transfers	2,741,882	2,738,134	2,738,134	2,738,134	2,738,134	2,738,134
<b>Total Expenditures</b>	<b>37,433,739</b>	<b>38,876,518</b>	<b>40,196,856</b>	<b>41,458,324</b>	<b>42,699,463</b>	<b>43,976,417</b>
<b>Net Operating - Over/(Under)</b>	<b>972,082</b>	<b>434,238</b>	<b>(1,555,359)</b>	<b>(2,160,549)</b>	<b>(2,604,338)</b>	<b>(3,040,212)</b>

Ending Fund Balance (Net of Reserves)	\$ 3,472,082	\$ 3,906,320	\$ 2,350,961	\$ 190,412	\$ (2,413,925)	\$ (5,454,138)
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# General Fund

Six-Year Forecast - Available Ending Fund Balance



# YFS Fund Forecast

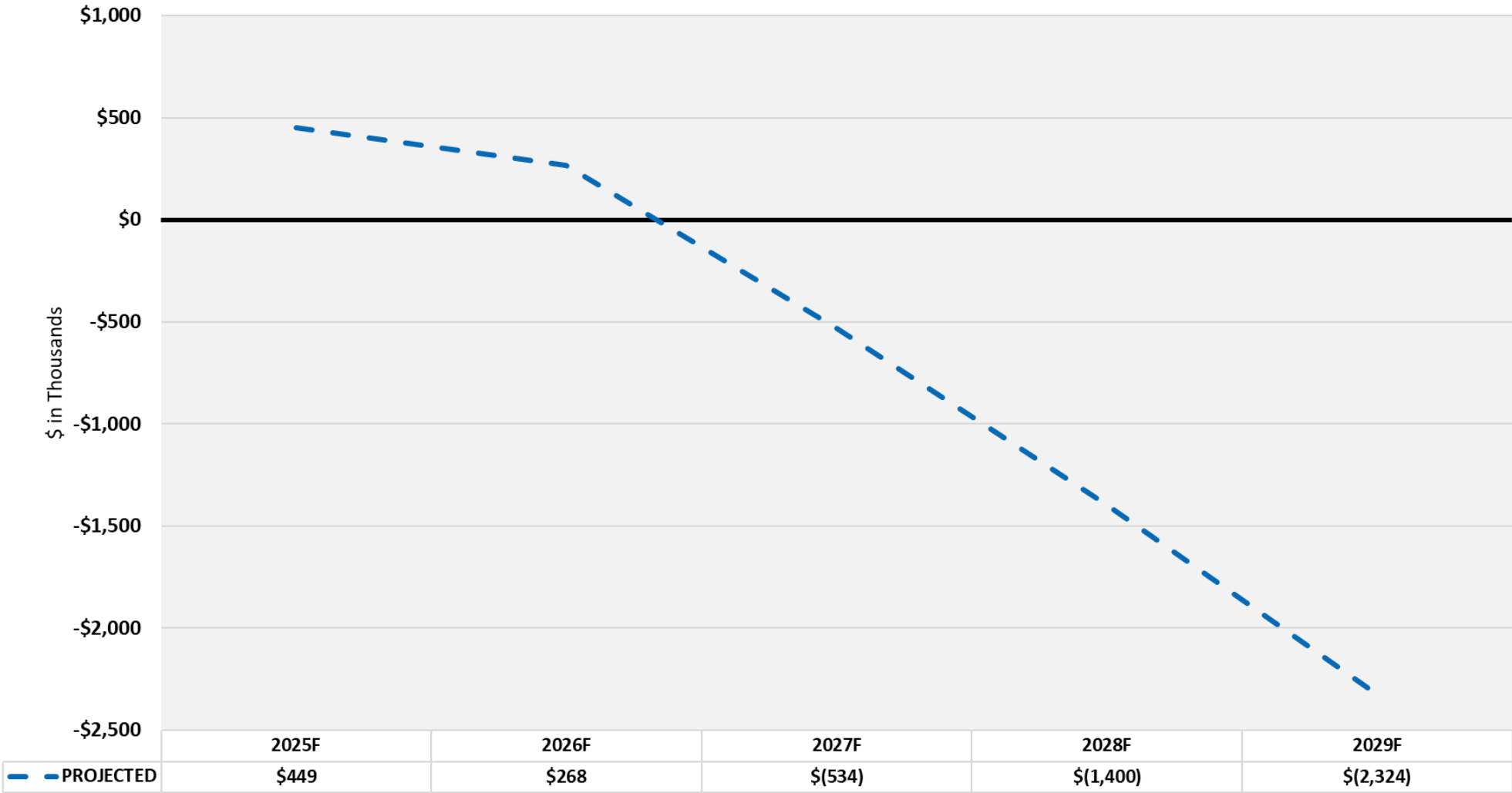
## Key Assumptions

- ❑ Fund stabilized in current biennium by use of operating balance, established to address temporary revenue losses.
- ❑ Thrift Shop's closure for essential repairs impacted revenues.
  - ❑ New projections are \$340,000 below budget expectations thru 2026. Unlikely to make up this revenue.
- ❑ Latest projections indicate a \$800,000 operating deficit in 2027 that grows overtime.



# YFS Fund Forecast

Five-Year Forecast - Available Ending Operating Fund Balance



# Key Take-aways

- ❑ Structural deficits in the outyears signal caution.
- ❑ Use of fund balance affords the City time to commit to a sustainable financial plan for the City's operating funds. This policy work will continue through 2026.
- ❑ More information to come during the mid-biennial budget workshops beginning October 2025.

# Next Steps

- ❑ Staff will return to Council later this year with recommendations on the potential disposition of the 2024 General Fund available balance.

# Staff Recommendation

1. Adopt Ordinance No. 25-10, amending the 2025-2026 Biennial Budget.

# Questions

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