AB 6776

Q2 2025 Financial Status Update

Sept 16, 2025

Agenda

1. Account Payables Update
2. Fund Accounting
3. Budget versus Actuals as of June 30, 2025
4. Budget Amending Ordinance
5. Questions

Change to Claims Reporting

- AB 6767 includes new summary format for sharing account payables.
- Improves security with new internal tools for Council to review outgoing payments in detail.
- In line with state law & guidance from State Auditor's Office.
- Detailed AP information remains available via public records requests via https://mercerisland.nextrequest.com/.

Reminder of Fund Accounting

- Local Government revenues vary based on distinct uses per state law and local policy.
- City tracks varied revenues across 19 separate funds, each a distinct accounting entity.
  - Ensures resources for a specific purpose are held to account.
  - Ex: Water Fund dollars are restricted to maintain and operate water system.
- A **Fund's Balance** refers to the net difference between its assets v liabilities at a point in time.

Fund Balance in Practice

- State law requires the City maintain a positive balance in each fund year to year.
  - Council directive to invest this balance in State LGIP.
  - As of 9/15/25, $82 million in LGIP. Ties back to the different City funds.
- This is working capital that keeps City operations running.
  1. Most is committed to goals, operations, & investments outlined in the budget.
  2. Changes weekly as Council approves outgoing payments and payroll for daily operations and capital investments, which cost more than $100 million/ year.

Financial Status Update

January – June 30, 2025

Accounting Procedure Change

Change from Accrual to Cash Basis Accounting in FY 2024

- ❑ What does this mean for FY 2025 Financial Status Updates?
  - ❑ For revenues impacted by the change, cash received in January 2024 was accrued and reported as revenue in December 2023.
  - ❑ Impacts comparisons to FY 2024, with Q1 being the most obvious.

Budget v. Actuals Overview

	2025 Amended Budget	Q2 2024 Actuals	Q2 2025 Actuals	2025 Actuals v Amended Budget
GENERAL FUND				
Revenues	**$39.6 M**	$17.0 M	**$19.7 M**	**50%**
Expenditures	**$39.1 M**	$19.7M	**$21.0 M**	**54%**
UTILITY FUNDS				
Revenues	**$29.3 M**	$12.9 M	**$14.0 M**	**48%**
Expenditures	**$57.1 M**	$15.4 M	**$19.6 M**	**34%**

**Differences may occur due to rounding.*

General Fund Revenues

- February through June **sales tax revenues** up $148,000 compared to last year.
  - Inflationary impacts + increased activity in construction sector.
- **Interest earnings** are exceeding budget expectations.
  - No federal funds target rate cut since December 2024.
  - Rates have remained higher than anticipated.

Other City Revenues

REET Revenues

- Primary resource for Street and Capital Improvement Funds.
- Major swings in revenue from 2021 – 2022.
  - In 2021, experienced a 15-year high in total sales.
  - In 2022, 2023 and 2024, total number of sales were lowest since 2009.
  - Higher number of property sales through Q2 2025 than Q2 2024.

REET Revenues

- Low activity in the market continues through Q2 2025.

REET Analysis	January 1 - June 30 2021	2022	2023	2024*	2025	2024-2025 % Change
AVG Properties Sold	42	28	25	18	20	**9%**
Total Revenue	$2.55 M	$2.02 M	$1.68 M	$1.41 M	$1.52 M	**7%**

** With the City's transition to cash basis, Jan 2024 cash receipts were accrued as revenue in Dec 2023.*
Source: King County Assessor's Office, 2025.

Budget Amending Ordinance

- Adjustments to the City's budget via Ordinance.
  - Quarterly in frequency, typically paired with the Financial Status Update.
- Ordinance 25-25 includes budget adjustments resulting from City Council action since May 20, 2025.

Staff Recommendation

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

Questions

Prepared By

Matt Mornick, Finance Director

LaJuan Tuttle, Deputy Finance Director

Ben Schumacher, Financial Analyst II