



BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 6776
September 16, 2025
Regular Business

AGENDA BILL INFORMATION

TITLE:	AB 6776: Financial Status Update for the Second Quarter 2025 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 2025 Second Quarter Financial Status Update and adopt Ordinance No. 25-25, amending the 2025-2026 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 2025 2. Ordinance No. 25-25 – 2025-2026 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) 2025.

- All funds are performing as expected through the first half of the fiscal year. Analysis across all funds is provided in the FY 2025 Second Quarter Financial Status Update (Exhibit 1).
- Budget amending Ordinance No. 25-25 (Exhibit 2) outlines changes to the 2025-2026 biennial budget since May 20, 2025.

As a reminder, FY 2025 is the second 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 year-over-year comparisons in the financial status update when comparing to 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 impacts only related to comparison of totals throughout the 2024 transition year.

Most notable revenues impacted 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.

Financial Status Update Q2 2025

The Financial Status Update (Exhibit 1) includes detailed analysis on the City's revenue and expenditure actuals from January 1 through June 30, 2025. The budget reflected in the update includes budget amendments adopted by ordinance through May 20, 2025 (see [Ordinance No. 25-10](#)).

General Fund revenues ended the quarter at \$19.7 million, which are within budget expectations. General sales tax revenues are consistent with FY 2024 numbers when comparing month-to-month returns due to higher-than-expected production across most business sectors, especially revenues related to the construction sector. Sales tax increases are tied to the lingering effects of inflation and the strength of the regional economy through June of this year.

Interest earnings in the first half of 2025 amount to \$942 thousand, marginally exceeding budget expectations. The Local Government Investment Pool (LGIP) saw consistent yields throughout the first six months of 2025 ending June at 4.39%, which represents only a 0.21% decrease compared to the beginning of the fiscal year.

Expenditures in the General Fund were \$21.0 million at the end of the second quarter, on par with budget expectations as outlined in Figure 1 on the following page. Expenditures are down nearly \$200 thousand from the prior year. This is a result of staffing costs related to Community Planning & Development (CPD) employees being moved out of the General Fund and into a separate CPD Fund, resulting in lower salary costs being represented in the General Fund.

GENERAL FUND EXPENDITURES (\$ in millions)	FY 2025 AMENDED BUDGET	% of AMENDED BUDGET	FY 2024 QUARTER 2 ACTUALS	FY 2025 QUARTER 2 ACTUALS	YTD as % of AMENDED BUDGET
Salaries & Benefits	\$17.40	44%	\$9.56	\$8.37	48%
Supplies	0.64	2%	0.31	0.28	44%
Contract Services	10.13	26%	1.07	5.81	57%
Other Services & Charges	7.36	19%	7.66	4.37	59%
Interfund Transfers Out	3.62	9%	2.78	2.19	61%
TOTAL EXPENDITURES	\$39.15	100%	\$21.38	\$21.03	54%

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 Reservoir Improvements and AC Main Replacement, 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.

RECOMMENDED ACTION

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