



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

**AB 6948
June 16, 2026
Regular Business**

AGENDA BILL INFORMATION

TITLE:	AB 6948: First Quarter 2026 Financial Status Update	<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:	No action necessary. Receive report.	

DEPARTMENT:	Finance
STAFF:	Matt Mornick, Finance Director LaJuan Tuttle, Deputy Finance Director Ben Schumacher, Financial Analyst
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Q1 2026 Financial Status Update
CITY COUNCIL PRIORITY:	4. Focus efforts and actions to be an environmentally and fiscally sustainable, connected, and diverse community.

EXECUTIVE SUMMARY

This agenda item provides the City Council with a comprehensive budget-to-actual comparison for the first quarter of the year, tracking all primary revenues and expenditures from January 1 through March 31, 2026.

- Per Washington state law, staff provide the City Council with quarterly updates on the City’s financial operations and budget appropriations ([RCW 35A.34.240](#)). This ensures fiscal transparency, allowing the City Council to actively monitor budget-to-actual variances and track potential financial risks throughout the year.
- All funds are performing as expected through the first three months of 2026. General Fund revenue collections are 19% of budget expectations. General Fund expenditures are 28% of budget expectations. Both are tracking with historical performance.
- Analysis across all funds is provided in the First Quarter 2026 Financial Status Update (Exhibit 1).
- No ordinance is included with this agenda bill given the City Council has not approved new budget appropriations since the previous budget amending ordinance adopted by Council on May 5, 2026 ([Ord. No. 26-04](#)).

BACKGROUND

In Washington state, the requirement for municipalities to provide financial updates is governed by the state’s Revised Code of Washington (RCW) municipal budgeting laws. For cities like Mercer Island operating under a biennial/ two-year budget cycle, staff present the City Council with financial status and appropriation updates quarterly ([RCW 35A.34.240](#)). This ensures fiscal transparency, allowing the City Council to actively monitor budget-to-actual variances and track potential financial risks throughout the year.

ISSUE/DISCUSSION

The Q1 2026 financial status update (Exhibit 1) includes detailed analysis of the City’s revenue and expenditure actuals from January 1 through March 31, 2026. The budget reflected in the update includes budget amendments adopted by ordinance through May 5, 2026 (see [Ord. No. 26-04](#)).

General Fund Revenues

Overall, General Fund revenues met budget expectations throughout the first quarter, tracking at \$7.4 million, which represents 19.1% of the amended revenue budget (\$39.0 million).

General sales tax is tracking with budget expectations and \$38,000 higher compared to the same period last year. In fiscal year 2025, the construction sector stood as the single largest generator of general sales tax revenue. This trend persists in 2026. While all other sectors – including retail & wholesale trade – experienced year-over-year gains in Q1 2026, the construction sector softened slightly yet remains the top performing business segment.

Business & Occupation (B&O) tax ended the first quarter at 52.6% of budget. This high percentage is normal for the first quarter because most registered businesses file annual returns, which are due by April 15th of the following year. B&O tax is levied at a rate of 0.10% on gross revenues exceeding \$150,000, with quarterly filings required for businesses earning over \$1.0 million annually. While collections are down \$377,000 compared to the prior year, they are tracking closely with historical trends.

Interest earnings performed slightly above budget expectations, ending Q1 2026 at 27.1% of budget. However, total earnings are lower than the same period last year. This drop is due to reduced idle cash reserves and a lower state investment pool (LGIP) interest rate yield, which fell from 4.40% in March 2025 to 3.71% in March 2026.

General Fund Expenditures

General Fund expenditures are within budget expectations at the end of the first quarter, totaling \$10.8 million, or 27.7% of the amended budget (\$39.1 million), as outlined in Figure 1.

Figure 1

GENERAL FUND EXPENDITURES <i>(\$ in millions)</i>	FY 2026 AMENDED BUDGET	% of AMENDED BUDGET	FY 2025 QUARTER 1 ACTUALS	FY 2026 QUARTER 1 ACTUALS	YTD as % of AMENDED BUDGET
Personnel	\$18.26	47%	\$4.00	\$4.23	23%
Supplies	0.66	2%	0.12	0.15	22%
Contractual Services	11.46	29%	3.22	2.87	25%
Other Services & Charges	5.16	13%	2.48	2.78	54%
Interfund Transfers Out	3.58	9%	1.00	0.82	23%
TOTAL EXPENDITURES	\$39.12	100%	\$10.83	\$10.85	28%

Utility Funds

The Water, Sewer, and Storm Water Utility Funds are operating within budget expectations. First-quarter expenditures for Water and Storm Water align with budget expectations. Operating expenditures in the Sewer Utility exceeded budget expectations at the end of March, which is normal as the annual insurance payments are paid in full in January.

Staff are currently prioritizing Water Utility projects to comply with federal tax laws requiring 85% of the November 2024 Limited Tax General Obligation (LTGO) bond proceeds to be spent within three years of issuance; this work is currently on track.

The City successfully advanced high-impact infrastructure projects across the water distribution and sewer conveyance systems. Key progress includes finalizing design and blueprints for the major water main replacement project, launching property surveys along the 2.5-mile Sewer Lakeline Reach 1 corridor, and completing standby generator installations at critical pump stations to ensure uninterrupted utility service during regional power outages.

All other operating and capital funds throughout the City are within budget expectations, and there are no variances to either revenues or expenditures unless otherwise stated in Exhibit 1.

NEXT STEPS

Staff will return to Council with the second and third quarter financial status updates in September and November 2026. The fourth quarter (year-end close) financial status update is provided in the spring of the following calendar year.

RECOMMENDED ACTION

No action necessary. Receive report.