



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

**AB 6269
May 16, 2023
Regular Business**

AGENDA BILL INFORMATION

TITLE:	AB 6269: Financial Status Update for the First Quarter 2023 and Budget Amending Ordinance	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input checked="" type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
RECOMMENDED ACTION:	Receive the FY 2023 First Quarter Financial Status Update and adopt Ordinance No. 23-06, amending the 2023-2024 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 – First Quarter FY 2023 2. Ordinance No. 23-06 2023-2024 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 first quarter of fiscal year (FY) 2023.

- All funds are performing as expected through the first three months of the year.
- Revenues in all three Utility Funds are performing as expected, up \$663,000 from the prior year due to rate increases implemented on January 1, 2023 and high interest earnings.
- Analysis across all funds is provided in Exhibit 1, the FY 2023 First Quarter Financial Status update.
- Budget amending Ordinance No. 23-06 (Exhibit 2) outlines changes the City Council has approved to the 2023-2024 biennial budget since April 25, 2023.

ISSUE/DISCUSSION

The financial status update (Exhibit 1) includes detailed analysis on the City’s revenue and expenditure actuals from January 1 through March 31, 2023. The budget reflected in the update includes budget amendments adopted by ordinance through April 25, 2023 (see [Ordinance No. 23-05](#)).

General Fund revenues ended the quarter at \$7.4 million, which meets budget expectations and is higher than the same period of the prior year. General sales tax revenues are up nearly \$231,000 primarily due to higher-than-expected returns across most business sectors as well as revenues related to the construction sector. Sales tax increases directly correlate to the current inflationary pressures in the economy.

License, permit, & zoning revenues are performing well due to better internal administration and collection of deferred revenues on a handful of permit-related projects early in the year.

Interest earnings in the first quarter of 2023 amount to \$487,841, markedly exceeding budget expectations. The Local Government Investment Pool (LGIP) saw a continued increase in yields throughout the first quarter of 2023 ending March at 4.77%, which represents a 4.55% increase compared to March 2022.

Expenditures in the General Fund were \$9.2 million at the end of the first quarter, on par with budget expectations. Expenditures are up \$1.4 million from the prior year. The difference can be attributed to costs associated with legal settlements and filling vacant positions. There are higher staffing levels in Police, Fire, and Parks and Recreation as compared to the same period last year, and corresponding increased employee compensation costs tied to inflation.

GENERAL FUND EXPENDITURES <i>(\$ in millions)</i>	FY 2023 AMENDED BUDGET	% of AMENDED BUDGET	FY 2022 Q1 ACTUALS	FY 2023 Q1 ACTUALS	YTD as % of AMENDED BUDGET
Salaries & Benefits	24.75	70%	5.08	5.77	23%
Supplies	0.87	2%	0.10	0.19	22%
Contract Services	3.67	10%	0.52	0.57	15%
Other Services & Charges	5.60	16%	1.83	2.45	44%
Interfund Transfers Out	0.35	1%	0.23	0.22	64%
TOTAL EXPENDITURES	\$35.24	100%	\$7.76	\$9.19	26%

The Water, Sewer, and Stormwater Utility Funds are operating within budget expectations. Capital project expenditures in the beginning of the year are traditionally low, given much of the capital work occurs in late spring through the early fall. Work is underway but significant projects, such as the SCADA System Upgrades and the Booster Chlorination System, remain impacted by supply chain and construction delays.

All other operating and capital funds throughout the City are within budget expectations, and there are no significant variances to either revenue or expenditures.

NEXT STEPS

At the May 23, 2023 City Council Planning Session, staff will provide the City Council with a summary of currently adopted financial management policies and seek direction related to the disposition of one-time year-end savings. This will include discussion on the Contingency Fund balance, remaining ARPA funding, and updated budget proposals deferred from the October 18, 2022 biennial budget workshop (see [AB 6169](#)).

RECOMMENDED ACTION

Adopt Ordinance No. 23-06, amending the 2023-2024 Biennial Budget.