

# AB 6251

## FY 2022 Year-end Review

April 25, 2023



# Agenda

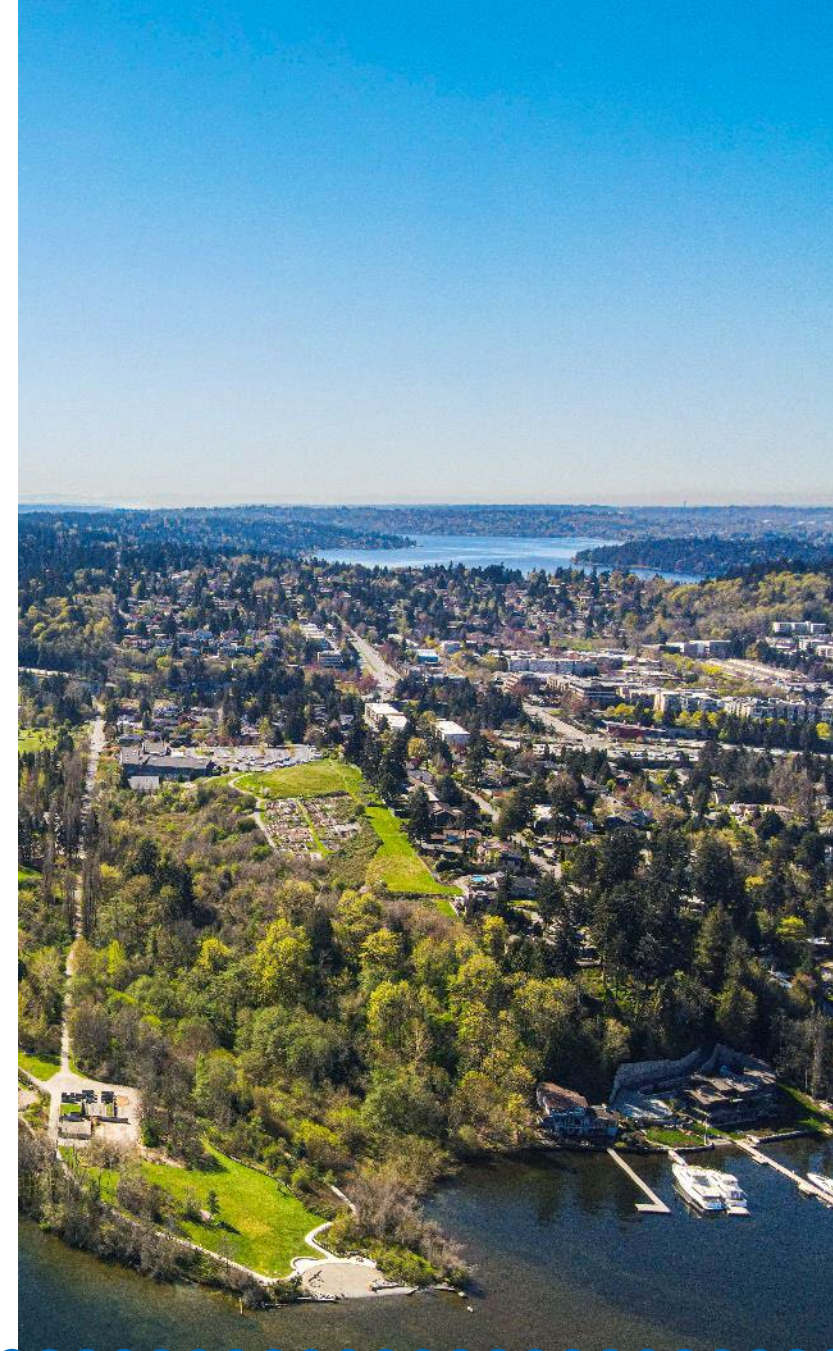
1. Budget versus Actuals at 2022 Year-End
2. Fund Balance Overview
3. Basis for FY 2022 General Fund Surplus
4. Other City Revenues
5. Carryforwards and Next Steps

# Budget v. Actuals Overview

	2021 Actuals	2022 Amended Budget	2022 Actuals	Actuals v Amended Budget
<b>GENERAL FUND</b>				
Revenues	\$32.7 M	<b>\$36.0 M</b>	<b>\$35.0 M</b>	<b>97%</b>
Expenditures	\$31.4 M	<b>\$35.5 M</b>	<b>\$33.9 M</b>	<b>96%</b>
<b>UTILITY FUNDS</b>				
Revenues	\$22.9 M	<b>\$22.7 M</b>	<b>\$24.1 M</b>	<b>106%</b>
Expenditures	\$19.6 M	<b>\$38.5 M</b>	<b>\$22.9 M</b>	<b>73%</b>

*\*Differences may occur due to rounding.*

# FY 2022 Fund Balances



# Fund Balance Terminology

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

# General Fund Balance

- A point in time calculation at the end of each fiscal year.
- Discussion scheduled for the City Council planning session.
- Disposition of available balance informed by financial policies.

<b>GENERAL FUND</b>	<b>AMOUNT</b>
<i>(\$ in thousands)</i>	
<b>RESERVED</b>	
Non-Spendable	\$122
Restricted	\$1,026
Committed	\$4,003
Assigned	\$6,071
<b>RESERVED SUBTOTAL</b>	<b>\$11,222</b>
<b>AVAILABLE BALANCE</b>	<b>\$1,523</b>
<b>TOTAL FUND BALANCE</b>	<b>\$12,746</b>

# Utilities Fund Balance

- Reserved includes:
  - Minimum levels for cash flow purposes.
  - Balance committed in 2023-2024 CIP.
  - Carry forward requests into FY 2023.

UTILITY FUNDS <i>(\$ in thousands)</i>	AMOUNT
<b>WATER</b>	<b>\$19,918</b>
Reserved	\$11,060
Available	\$8,858
<b>SEWER</b>	<b>\$10,306</b>
Reserved	\$7,289
Available	\$3,016
<b>STORM WATER</b>	<b>\$4,662</b>
Reserved	\$1,091
Available	\$3,571

# Contingency Fund Balance

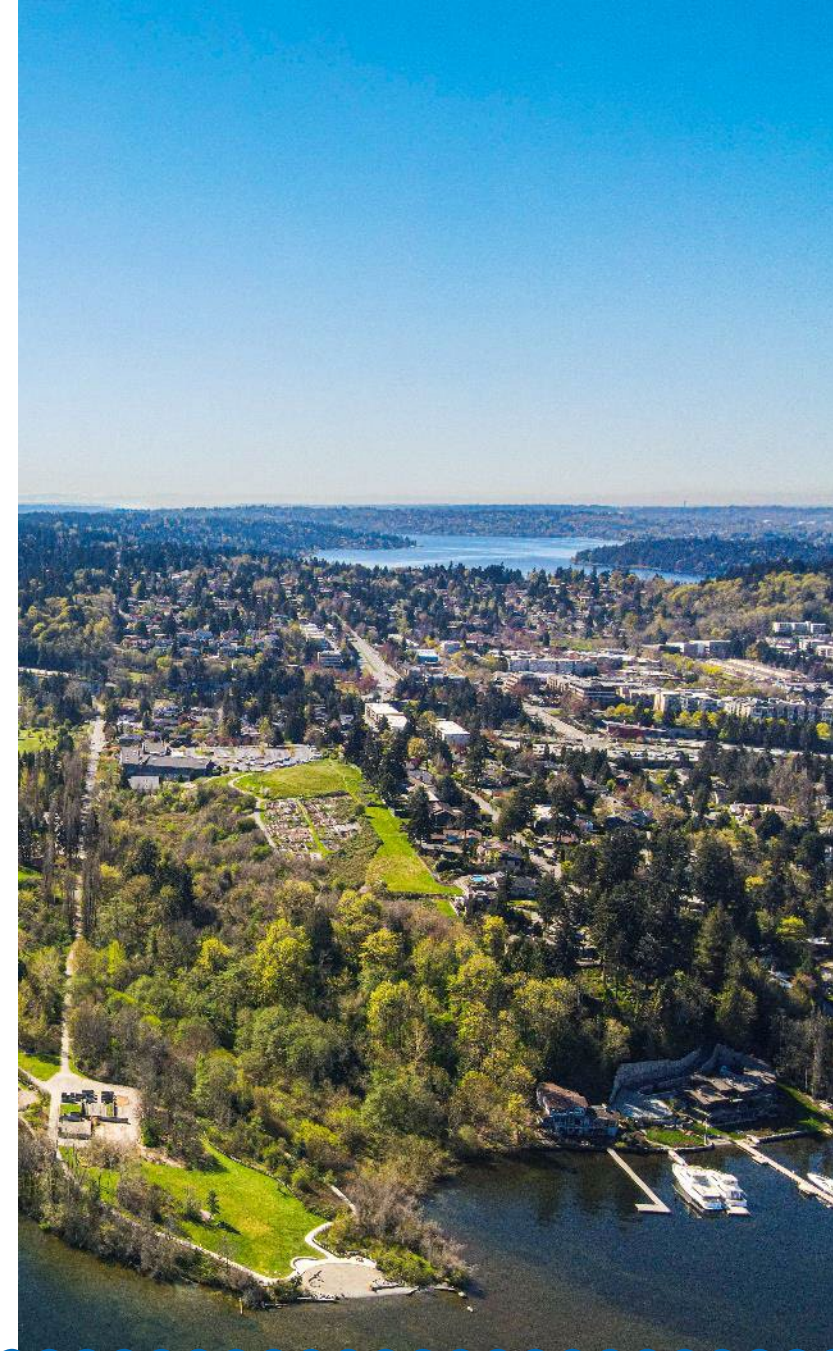
- ❑ As of December 31, 2022, balance is \$4,567,264.
- ❑ Funding target is 12.5% of FY 2023 General Fund Expenditures.
- ❑ Fund is \$217,725 overfunded.
- ❑ Disposition of surplus scheduled for Council Planning Session.



# ARPA Funding Balance

- ❑ At 2022 year-end, \$1.9 M of the \$7.2 M remains available.
- ❑ Funds must be committed by Dec 2024, spent by Dec 2026.
- ❑ Funds cannot be used to:
  1. Reduce net tax revenues
  2. Pay down unfunded liabilities
  3. Pay debt or legal settlements.
  4. Replenish financial reserves.
- ❑ Discussion on ARPA balance scheduled as part of City Council Planning Session.

# Basis for the FY 2022 Surplus



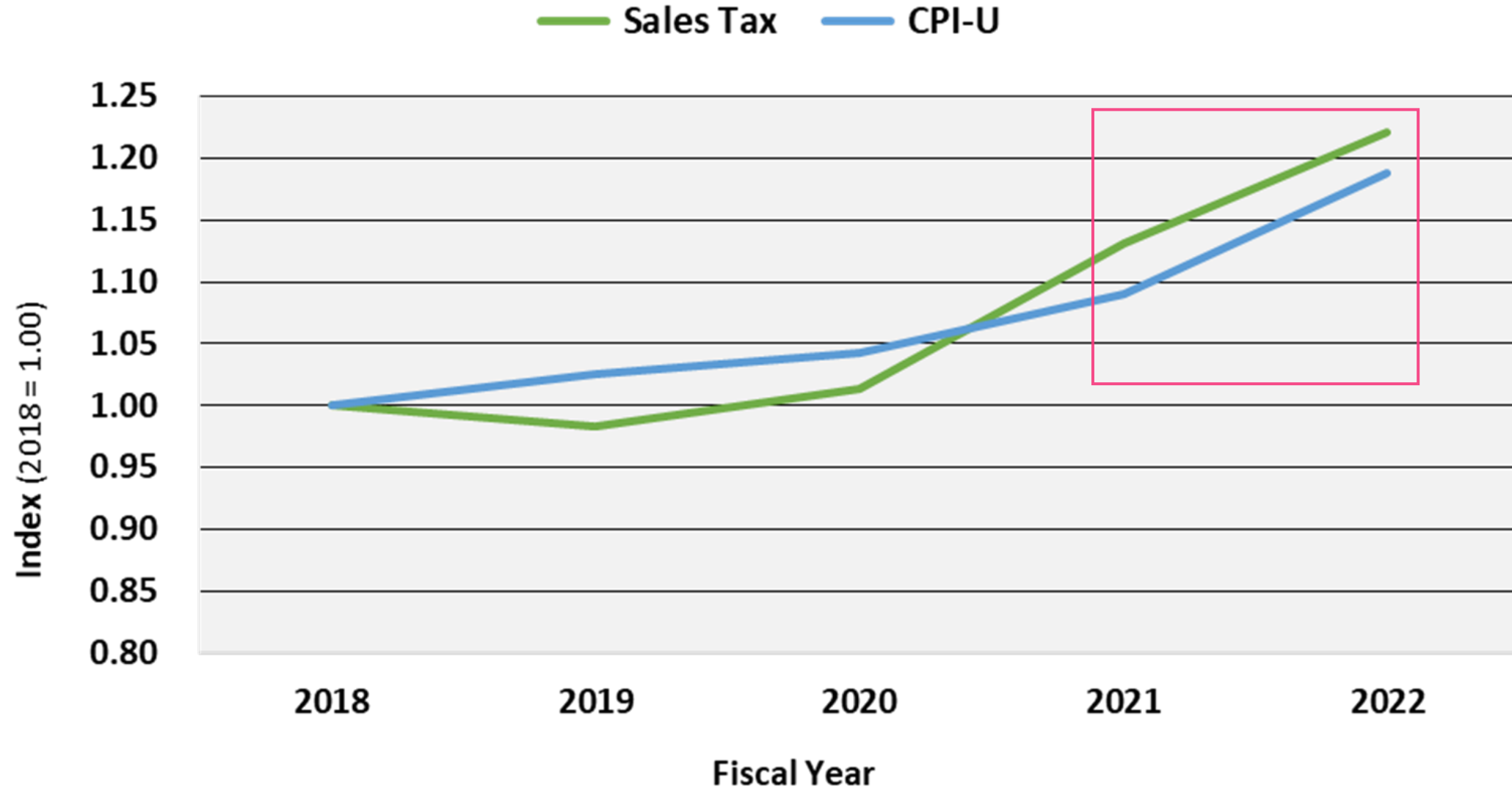
# 2022 General Fund Surplus

1. General sales tax outperformed budget expectations.
2. Departments generated expenditures savings.
  - ❑ \$1.1 M in vacancy savings
  - ❑ \$0.6 M underspent on professional services

# General Sales Tax

- ❑ Received \$6.6 M in 2022, \$1.5 M more than amended budget.
- ❑ Annual CPI-W in 2022 was 8.8%, highest since 1981.
- ❑ From Mar 2022 to Mar 2023, federal funds rate increased 4.5%.
- ❑ **Key finding:** increased revenue tied directly to inflation.

# Sales Tax Change v Inflation

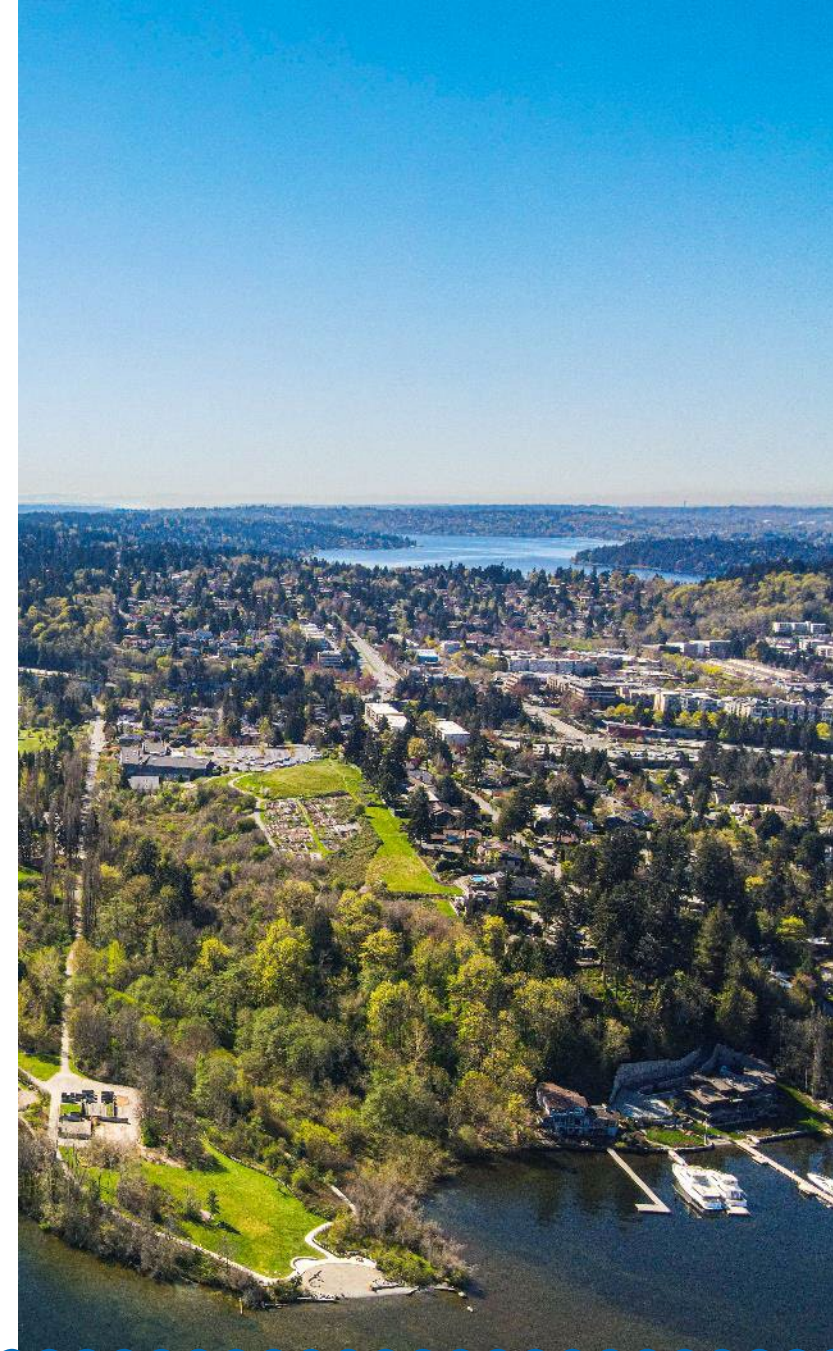


# General Sales Tax

## Key Takeaways

- ❑ Top drivers in 2022 were construction and retail sales.
- ❑ Revenue increases tied to inflation.
- ❑ Volume of sales is a key factor yet is unknown.
- ❑ “Lag effect” between consumer spending and inflation is unclear.

# Other City Revenues



# License, Permit, & Zoning Fees

- ❑ Total revenues at year-end were \$3.9 M.
- ❑ Exceeded budget expectations due to:
  1. Better system for employee time-tracking.
  2. Updating permit fees.
  3. Higher-than-normal collection of deferred revenues early in 2022 (e.g., King County wastewater pipeline).
- ❑ Unspent revenues make-up portion of fund balance restricted to development service-related expenses.



# License, Permit, & Zoning Fees

<b>Fund Balance in General Fund</b> <i>as of 12/31/2022</i>	<b>Amount</b>
<b>Reserved balance restricted to Development Services</b>	
Deferred fee revenue (unearned cash received)	\$553,913
Permit fee operating balance	\$303,341

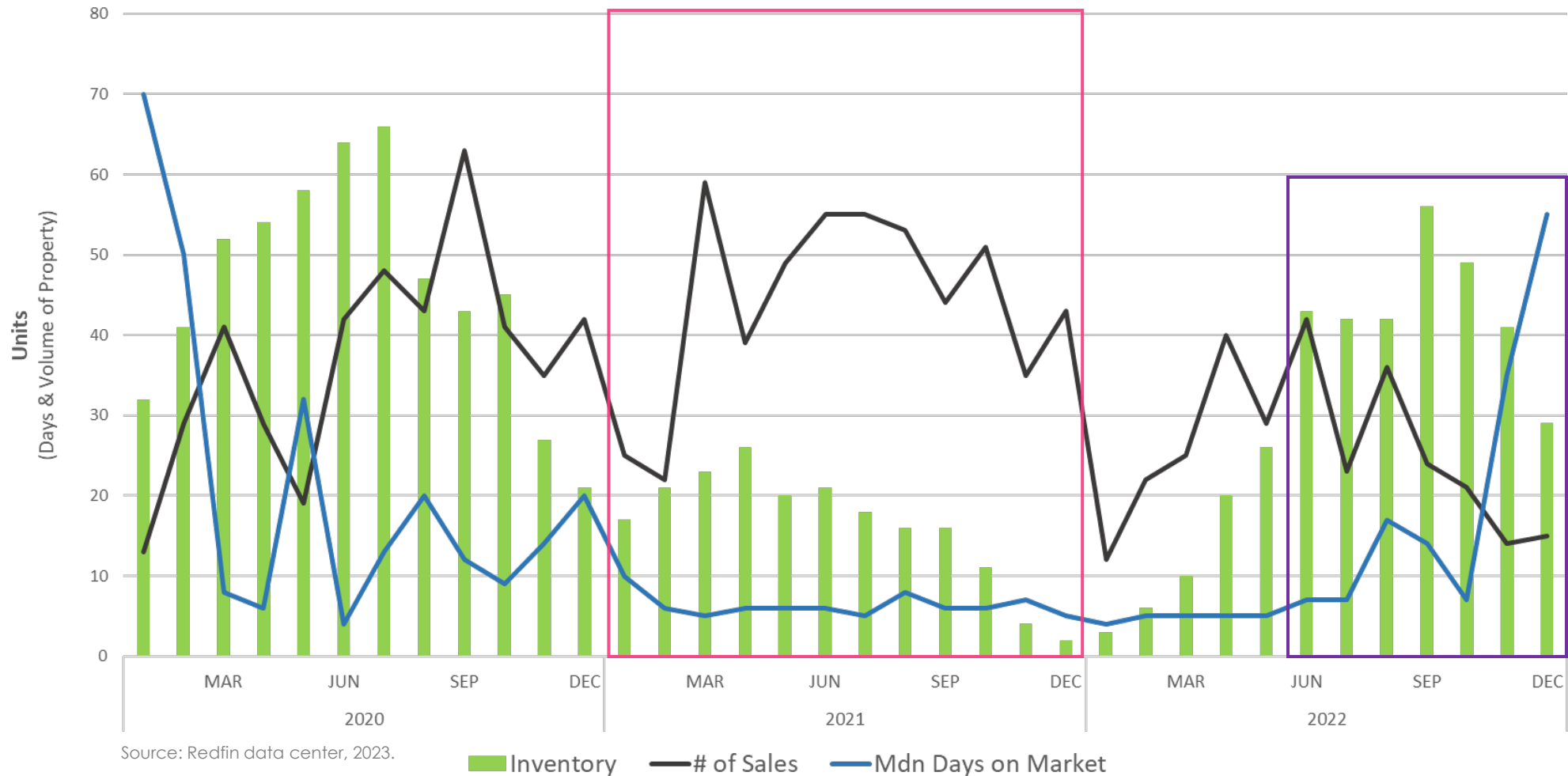
Unspent revenues make-up a portion of fund balance restricted to development service-related expenses.

# REET Revenues

- ❑ Primary funding source for Street and Capital Improvement Funds.
- ❑ 2022 year-end revenues were \$4.0 M, on par with budget expectations.
  - ❑ 303 property sales recorded in 2022, 227 less than in 2021.
  - ❑ Second half of 2022, number of property sales decreased as “time on market” began to increase.

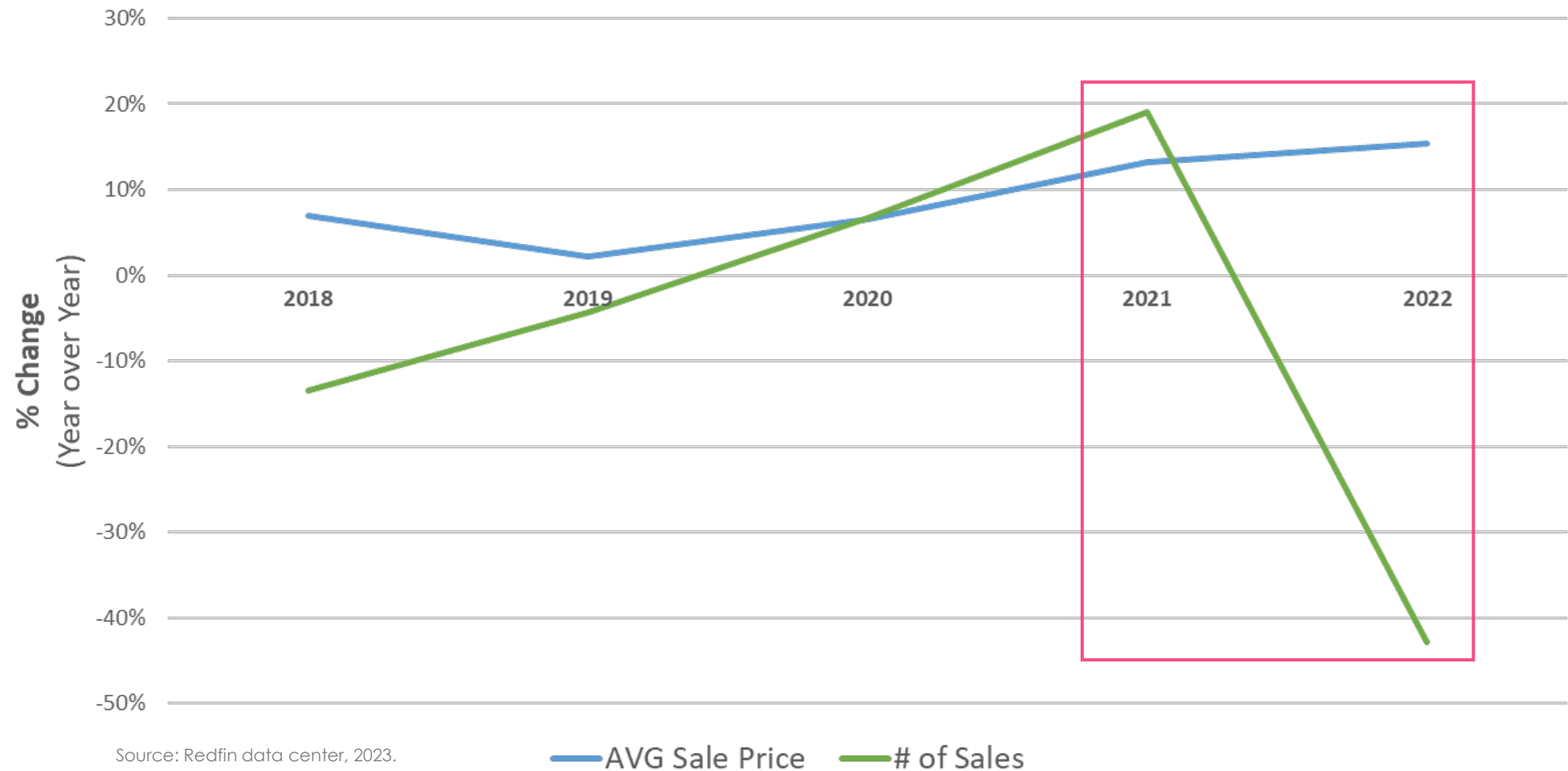
# REET Revenues

Mercer Island Property Sales, Inventory Available, and Median Days on Market  
2020-2022



# REET Revenues

Average Sales Price Change vs Number of Sales  
2018-2022



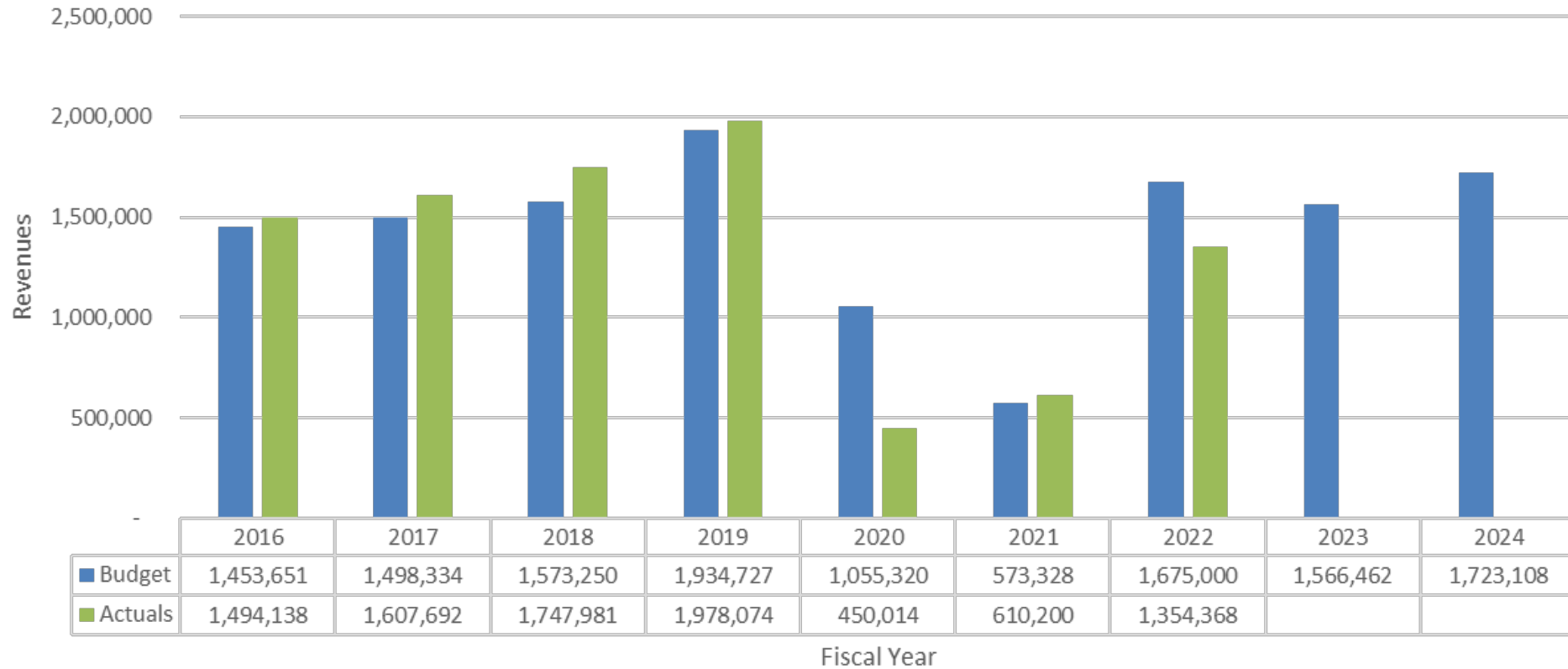
# REET Revenues

## Key Takeaways

- ❑ 2021 represented a 15-year high in total sales.
- ❑ In 2022,
  - ❑ Total number of sales were the lowest since 2009.
  - ❑ Real estate sales decreased as Federal funds rate increased.
  - ❑ Increase in average sale prices did not offset decline in sales.
- ❑ Staff is closely tracking REET revenues.
  - ❑ Updates scheduled in spring and fall.

# Mercer Island Thrift Shop

Revenues  
Budget v Actual



2022 revenues were \$1.35 M, more than double 2021.

# Carryforwards into FY 2023

- Relate to projects, programs, and contracts substantially completed in 2021-2022 biennium, but incomplete as of Dec 31, 2022.

Fund	Fund Name (\$ thousands)	Carryforward Request
001	General Fund	440
104	Street Fund	1,505
160	Youth & Family Services	65
170	ARPA Fund	857
343	Capital Improvement	572
345	Technology & Equipment	708
402	Water Utility	9,168
426	Sewer Utility	810
432	Stormwater Utility	168
503	Equipment Rental	597
<b>Total</b>		<b>\$14,891</b>

# Staff Recommendation

- ❑ Adopt Ordinance No. 23-05, amending the 2023-2024 biennial budget.



# Questions

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