



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

**AB 4306
June 2, 2008
Regular Business**

**FINANCIAL STATUS REPORT THROUGH
3/31/08 AND BUDGET AMENDING ORDINANCE**

Proposed Council Action:

Receive report and adopt Ordinance No. 08-04 amending the 2007-2008 Budget.

DEPARTMENT OF

Finance (Chip Corder)

COUNCIL LIAISON

n/a

EXHIBITS

1. Financial Status Report Through March 31, 2008
2. Ordinance-No. 08-04 (Amends 2007-2008 Budget)

APPROVED BY CITY MANAGER

[Handwritten Signature] 5/28/08

AMOUNT OF EXPENDITURE	\$	758,101
AMOUNT BUDGETED	\$	
APPROPRIATION REQUIRED	\$	758,101

SUMMARY

Attached as Exhibit 1 is the Financial Status Report through March 31, 2008. Like the Financial Status Report prepared for the first quarter of 2007, this one encompasses only the General Fund, because most of the maintenance and capital project activity accounted for in the other funds doesn't ramp up until spring or early summer. Consequently, there really is nothing of financial significance in these funds to report through the first quarter of 2008.

A budget amending ordinance is attached as Exhibit 2. Because the attached ordinance contains budget adjustments that have been previously approved by the City Council in open public meetings and one minor budget adjustment request that has not been approved by the City Council, it represents financial "housekeeping." Therefore, the City Manager recommends that the Council's procedural requirement for a second reading be suspended and that the budget adjustment ordinance be adopted on June 2, 2008.

RECOMMENDATION

Finance Director

- MOVE TO:
1. Suspend the City Council Rules of Procedure 5.2.
 2. Adopt Ordinance No. 08-04, amending the 2007-2008 budget.

City of Mercer Island
FINANCIAL STATUS REPORT
Through March 31, 2008

FOREWORD

The Financial Status Report provides a summary budget to actual comparison of revenues and expenditures for each fund through the end of the most recently completed fiscal quarter. Revenue and expenditure comparisons are also made to the same period in the prior year. In addition, a comprehensive progress update on the City's Capital Improvement Program (CIP) is included twice a year in the second and fourth quarter reports. The other two quarterly reports include only a brief progress update, if deemed necessary, on key projects in the CIP. A separate fund balance (or "working capital" for the utility funds) analysis for every fund is included annually in the fourth quarter report as well. Finally, if needed, budget adjustments are identified in a separate section of this report, along with an amending ordinance.

This report is comprised of the following five sections:

- General Fund
- Utility Funds
- All Other Funds
- Capital Improvement Program
- Budget Adjustments

It should be noted that, where significant, revenues are recognized when earned, regardless of when cash is received, and expenditures are recognized when a liability has been incurred or when resources have been transferred to another fund. Also, in the case of the General Fund, the beginning fund balance, which corresponds to the Council approved "cash carryover" of net excess resources from the prior year, is separately identified.

GENERAL FUND

Overall, the **General Fund is in a solid financial position through the first quarter of 2008**, with total actual revenues outpacing and total actual expenditures close to the 25 percent budget threshold, as described below.

Revenues

Comparing total actual to total budgeted revenues (i.e. excluding Beginning Fund Balance and Transfer From Other Funds) through March 31st, the General Fund is **28.7 percent of budget in 2008** versus 30.4 percent of budget in 2007 **primarily due to stronger than projected sales tax and utility tax receipts**, as shown in the table below.

**GENERAL FUND: Revenues
Through March 31, 2007 and 2008**

Revenue Category	Actuals		Budget		% of Budget	
	3/31/07	3/31/08	2007	2008	2007	2008
Property Tax	2,728,159	2,412,564	9,259,808	9,425,105	29.5%	25.6%
Sales Tax	1,093,355	1,281,230	2,650,000	2,789,076	41.3%	45.9%
Utility Taxes	973,249	978,724	3,032,000	3,188,000	32.1%	30.7%
Water/Sewer Overhead	179,000	184,850	716,000	739,400	25.0%	25.0%
Intergovernmental Revenues	60,999	92,235	487,239	679,239	12.5%	13.6%
Licenses, Permits & Zoning Fees	646,726	566,518	2,180,850	2,195,850	29.7%	25.8%
Recreation Program Fees	193,393	213,240	966,540	972,140	20.0%	21.9%
EMS Fees	137,340	164,364	481,629	499,976	28.5%	32.9%
Court Fines	90,568	90,117	306,000	306,000	29.6%	29.5%
Misc General Government	71,455	45,707	186,700	199,700	38.3%	22.9%
Interest	88,008	85,849	346,000	346,000	25.4%	24.8%
Total Revenues	6,262,252	6,115,398	20,612,766	21,340,486	30.4%	28.7%
Beginning Fund Balance	1,719,212	742,888	1,719,212	742,888	100.0%	100.0%
Transfer from Other Funds	-	-	-	-	N/A	N/A
Total Resources	7,981,464	6,858,286	22,331,978	22,083,374	35.7%	31.1%

Comparing 2008 to 2007, **total actual revenues are down almost \$147,000, or 2.3 percent**, through the first quarter, primarily due to the **timing of property tax receipts from King County**.

The following revenues are particularly noteworthy:

- **Sales tax is 45.9 percent of budget in 2008** compared to 41.3 percent of budget in 2007. Also, **actual revenue is up almost \$188,000, or 17.2 percent**, compared to

the same period last year. However, it should be noted that actual revenues in both years include **unexpected receipts from two non-classified businesses amounting to \$411,000 in 2007 and \$453,000 in 2008**. The City has received such payments in the past, but there is no discernible collection pattern. Accordingly, they can't be predicted. **Factoring out these extraordinary receipts, total actual revenue through March 2007 is up almost \$146,000, or 21.3 percent**, compared to the previous year. The following table compares 2008 to 2007 sales tax revenue through March and includes a breakdown by business sector.

Business Sector	Revenue (Jan-Mar)		%	% of Total			
	2007	2008		Change	2007	2008	2007 Adj*
Construction	329,057	391,618	19.0%	30.1%	30.6%	48.2%	47.3%
Retail & Wholesale Trade	165,926	170,203	2.6%	15.2%	13.3%	24.3%	20.6%
Admin & Support Services	18,944	37,840	99.7%	1.7%	3.0%	2.8%	4.6%
Food Services	36,022	38,502	6.9%	3.3%	3.0%	5.3%	4.7%
Telecommunications	27,305	30,382	11.3%	2.5%	2.4%	4.0%	3.7%
Finance, Insurance & Real Estate	31,062	37,091	19.4%	2.8%	2.9%	4.6%	4.5%
All Other Sectors	485,039	575,594	18.7%	44.4%	44.9%	10.8%	14.8%
Total	1,093,355	1,281,230	17.2%	100.0%	100.0%	100.0%	100.0%

* The "2007 Adj" and "2008 Adj" columns factor out \$411,191 and \$453,460 respectively in extraordinary receipts from "non-classified businesses," which were included in the "All Other Sectors" totals of \$485,039 in 2007 and \$575,594 in 2008.

Except for the "retail & wholesale trade" sector, which was up only 2.6 percent, sales tax growth has been broad based. Of particular note, **construction-related sales tax was up 19.0 percent over last year** primarily due to **several large projects in the Town Center** that are currently underway. In addition, the **construction sector continues to make up a little less than one-half of the City's total sales tax receipts**, excluding the extraordinary receipts in 2007 and 2008. Based on what's currently in the Development Services Group's (DSG) pipeline, **this unusually high level of construction-related sales tax is expected to continue through 2008 and likely until mid-year 2009.**

- **Utility taxes**, which apply to private utilities only, are **30.7 percent of budget in 2008** compared to 32.1 percent of budget in the prior year. Relative to 2007, **actual revenue is up only \$5,475, or 0.6 percent.** This minimal growth rate can be **wholly attributed to the electricity/gas utility (i.e. Puget Power), which lowered its gas rates 13.0 percent on average effective October 1, 2007.** It should be noted that electricity/gas utility tax revenue was up 13.4 percent in 2007 and 12.3 percent in 2006 as of year-end. Continuing their streak of high growth rates are the **cellular and cable (i.e. Comcast) utility companies, which are up 15.3 percent and 11.9 percent respectively** through March of this year. The table below compares utility tax revenues, which are broken down by type of utility, for 2006, 2007, and 2008 as of March 31st.

Utility Tax	Revenue (Jan-Dec)			% Change	
	2006	2007	2008	2007	2008
Electricity/Gas	501,892	587,076	563,086	17.0%	-4.1%
Garbage	52,163	54,283	54,474	4.1%	0.4%
Cable TV	100,112	112,376	125,790	12.3%	11.9%
Telephone	54,618	52,074	50,547	-4.7%	-2.9%
Cellular	125,534	142,197	164,011	13.3%	15.3%
Long Distance	17,387	25,242	20,816	45.2%	-17.5%
Total	851,707	973,249	978,724	14.3%	0.6%

- **Intergovernmental revenues** are only **13.6 percent of budget in 2008** compared to 12.5 percent of budget last year. These revenues primarily consist of the liquor excise tax and liquor control board profits that are shared by the state, vessel registration fees that are received from King County via the state, and contract revenue for marine patrol services. The latter two revenues, which comprise almost 33.0 percent of what's budgeted for intergovernmental revenues, won't be received, or otherwise recognized, until December 2008.
- **Licenses, permits, and zoning fees** are **25.8 percent of budget in 2008** compared to 29.7 percent of budget in 2007. This revenue category consists of all fees related to development, cable franchises, and business licenses. **Single family residential development is down significantly in 2008 after three very busy years.** For example, the **number of single family residential building permits issued** as of March 31, 2008 is **down 46.8 percent** from the same period in 2007 (from 77 permits in 2007 to 41 permits in 2008). Also, the **total valuation associated with all building permits** issued through March 31, 2008 is **down 70.4 percent** compared to the same timeframe in 2007.

Prominent examples of commercial and mixed use developments that have contributed significant development-related fees in 2008 include the **Aljoya House**, the **7700 Central Condominiums**, and the **7800 Plaza Condominiums**, which are all currently under construction.

Finally, **cable franchise fees** continue to exhibit strong growth, with **actual revenue up 11.9 percent** over last year.

All other revenues are either within expected norms through the first quarter of the year or too insignificant too highlight.

Expenditures

Comparing total actual to total budgeted expenditures through March 31st (excluding the transfer of the prior year's surplus), the General Fund is **26.6 percent of budget in 2008** versus 26.2 percent of budget in 2007 primarily due to there being **7 bi-weekly payroll**

periods in the first quarter of 2007 and 2008, which correspond to 27.0 percent of the total number of payroll periods in each year. Budgeted and actual expenditures through March 31, 2007 and 2008 are shown in the table below.

**GENERAL FUND: Expenditures
Through March 31, 2007 and 2008**

Expenditure Category	Actuals		Budget		% of Budget	
	3/31/07	3/31/08	2007	2008	2007	2008
Salaries	2,910,356	3,108,649	10,997,320	11,644,994	26.5%	26.7%
Benefits	746,416	812,107	3,377,206	3,707,440	22.1%	21.9%
Contractual Services	306,022	329,510	1,563,044	1,851,542	19.6%	17.8%
Supplies	110,771	178,455	657,129	645,481	16.9%	27.6%
Phone, Postage & Advertising	38,828	67,775	187,625	193,125	20.7%	35.1%
Equipment Rental	251,004	240,152	1,008,864	1,018,284	24.9%	23.6%
Insurance	441,024	522,307	458,975	471,475	96.1%	110.8%
Utilities	161,452	73,666	493,823	514,289	32.7%	14.3%
Other Services & Charges	66,121	132,435	378,123	430,823	17.5%	30.7%
Jail	47,049	11,252	98,000	98,000	48.0%	11.5%
Intergovernmental Services	81,777	124,205	643,572	650,275	12.7%	19.1%
Capital	1,592	-	10,750	9,250	14.8%	0.0%
Transfer to Tech/Equip Fund	62,500	62,500	250,000	250,000	25.0%	25.0%
Transfer to YFS Fund	116,250	116,250	465,000	465,000	25.0%	25.0%
Transfer to Computer Equip Fund	70,000	70,000	70,000	70,000	N/A	100.0%
Subtotal	5,411,162	5,849,263	20,659,431	22,019,978	26.2%	26.6%
Transfer of Prior Year's Surplus	-	-	-	165,150	N/A	N/A
Total Expenditures	5,411,162	5,849,263	20,659,431	22,185,128	26.2%	26.4%

The following expenditures deserve to be highlighted:

- **Salaries**, which make up about 53.0 percent of the 2008 General Fund budget (excluding the transfer of the prior year's surplus), are **26.7 percent of budget in 2008** relative to 26.5 percent of budget in the previous year. This **modest overage relative to the 25.0 percent threshold** is primarily due to there being **7 bi-weekly payroll periods in the first quarter of 2007 and 2008**, as noted above.
- **Contractual services**, which total about 8.0 percent of the 2008 General Fund budget (excluding the transfer of the prior year's surplus), are only **17.8 percent of budget in 2008** compared to 19.6 percent of budget in 2007. This expenditure category includes software support, development and engineering support, recreation instructors, repairs and maintenance, and other professional services. **It typically trails the 25.0 threshold, because many services are contracted for during the second and third quarters of the year.**

- **Insurance is 110.8 percent of budget in 2008** versus 96.1 percent of budget in the prior year due to a **much larger than anticipated increase in the City's 2008 liability insurance rate** (i.e. almost \$48,000 more than budgeted).
- **Transfer of prior year's surplus** represents that portion of the \$2.31 million surplus in the General Fund at the end of 2007 that was approved by the Council to be distributed to other funds for various purposes. To date, \$348,181 has been approved by the Council to be transferred to other funds. A complete listing of the uses of the 2007 year-end surplus as well as when they were approved by the Council is noted in the table that follows.

Uses of 2007 Year-End General Fund Surplus	Amount
December 11, 2006 Meeting (AB 4149):	
Funding for one-time costs in 2008 budget	24,165
November 5, 2007 Meeting (AB 4233):	
Establish stakeholder process for parks levy	73,866
February 19, 2008 Meeting (AB 4269):	
Purchase biodiesel tank, dispenser, and fuel card reader	45,000
February 19, 2008 Meeting (AB 4270):	
Soil remediation work (Honeywell site)	120,150
April 7, 2008 Meeting (AB 4284):	
Abatement of dangerous home at 5075 West Mercer Way	85,000
Remaining uncommitted balance	1,959,850
Total	\$ 2,308,031

At the June 2, 2008 Council meeting, the Finance Director will identify other funding needs and seek Council direction on the disposition of the remaining \$1.96 million of the 2007 General Fund surplus.

All other expenditures are either within expected norms through the first quarter of the year or too insignificant to highlight.

BUDGET ADJUSTMENTS

In the interest of administrative ease, a budget amending ordinance is prepared and submitted to the Council quarterly, if needed, along with the Financial Status Report. Budget adjustments are divided into three groups: 1) those previously approved by the Council but not formally adopted via a budget amending ordinance; 2) new requests; and 3) carryover requests. The second category typically encompasses financial housekeeping items, minor requests, and unanticipated expenditures that the City had to incur and was unable to absorb within the authorized budget.

Budget adjustments previously approved but not formally adopted via a budget amending ordinance by the Council are summarized in the table below.

Fund	Dept	Description	Agenda Bill	Council Meeting	Budget Year	Amount	Funding Source
General	Police	Increase Emergency Management position from .5 FTE to 1.0 FTE and fill with a Police Officer	AB 4286	3/17/2008	2008	\$50,000	Utility tax revenue
Beautification	DSG	Local grant to IslandVision for Farmers' Market	AB 4301	5/5/2008	2008	\$16,300	Unapp. beginning fund balance
Technology & Equipment	CMO	Amend City Council Meeting Cable Broadcasting project budget and authorize to proceed	AB 4287	3/17/2008	2008	\$32,515	Unapp. beginning fund balance (Comcast EG capital grant)
Water Utility	Maint	Emergency water supply well design	AB 4294	4/21/2008	2008	\$135,000	Unapp. beginning fund balance
Sewer Utility	Maint	Sewer lake line project re-assessment, re-design, and re-packaging	AB 4302	5/19/2008	2008	\$484,000	Unapp. beginning fund balance
Equipment Rental	Police	Budget adjustment correction to Ordinance No. 08-03 related to use of federal seizure monies for equipment replacement in patrol cars	AB 4259	2/4/2008	2008	\$35,000	Transfer in of federal seizure monies from Criminal Justice Fund

New requests not approved or formally adopted by the Council are summarized below.

Fund	Dept	Description	Budget Year	Amount	Funding Source
General	Parks & Rec	CCMV vandalism restitution	2008	\$5,286	Restitution proceeds

A budget amending ordinance is attached as Exhibit 2.

**CITY OF MERCER ISLAND
ORDINANCE NO. 08-04**

**AN ORDINANCE OF THE CITY OF MERCER ISLAND, WASHINGTON,
INCORPORATING CERTAIN BUDGET REVISIONS TO THE 2007-2008
BIENNIAL BUDGET, AND AMENDING ORDINANCE NOS. 06-17, 07-03,
07-05, 07-08, 07-09, 07-13, AND 08-03.**

WHEREAS, the City Council adopted the 2007-2008 Budget by Ordinance No. 06-17 on December 11, 2006 representing the total for the biennium of estimated revenues and expenditures for each of the separate funds of the City, and

WHEREAS, a number of budget adjustments have been approved by the City Council in 2008 in open public meetings but have not been formally adopted via ordinance, as noted in the following table, and

Fund	Dept	Description	Agenda Bill	Council Meeting	Budget Year	Amount	Funding Source
General	Police	Increase Emergency Management position from .5 FTE to 1.0 FTE and fill with a Police Officer	AB 4286	3/17/2008	2008	\$50,000	Utility tax revenue
Beautification	DSG	Local grant to IslandVision for Farmers' Market	AB 4301	5/5/2008	2008	\$16,300	Unapp. beginning fund balance
Technology & Equipment	CMO	Amend City Council Meeting Cable Broadcasting project budget and authorize to proceed	AB 4287	3/17/2008	2008	\$32,515	Unapp. beginning fund balance (Comcast EG capital grant)
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Equipment Rental	Police	Budget adjustment correction to Ordinance No. 08-03 related to use of federal seizure monies for equipment replacement in patrol cars	AB 4259	2/4/2008	2008	\$35,000	Transfer in of federal seizure monies from Criminal Justice Fund

WHEREAS, other budget adjustments are needed that have not been previously approved by the City Council, as noted in the following table,

Fund	Dept	Description	Budget Year	Amount	Funding Source
General	Parks & Rec	CCMV vandalism restitution	2008	\$5,286	Restitution proceeds

NOW, THEREFORE, the City Council of the City of Mercer Island, Washington, do ordain as follows:

Section 1. The 2007-2008 Budget for the City of Mercer Island, as adopted in Ordinance No. 06-17 and amended by Ordinance Nos. 07-03, 07-05, 07-08, 07-09, 07-13, and 08-03, is hereby amended to incorporate increases in revenues and expenditures in the following funds.

Fund No.	Description	Revenues	Expenditures
001	General Fund	\$55,286	\$55,286
117	Beautification	\$16,300	\$16,300
345	Technology & Equipment	\$32,515	\$32,515
402	Water Utility	\$135,000	\$135,000
426	Sewer Utility	\$484,000	\$484,000
503	Equipment Rental	\$35,000	\$35,000
Totals		\$ 758,101	\$ 758,101

Section 2. City Ordinances Nos. 06-17, 07-03, 07-05, 07-08, 07-09, 07-13, and 08-03 as previously adopted and as hereby amended, are hereby ratified and confirmed and continued in full force and effect.

Section 3. This ordinance shall take effect and be in force thirty (30) days after passage, signing and publication.

PASSED BY THE CITY COUNCIL OF THE CITY OF MERCER ISLAND, WASHINGTON,
AT ITS MEETING ON THE 2nd DAY OF JUNE, 2008.

CITY OF MERCER ISLAND

Jim Pearman, Mayor

ATTEST:

Allison Spietz, City Clerk

APPROVED AS TO FORM:

Katie H. Knight, Interim City Attorney

Date of Publication: _____