



# Study Session Staff Report

## Attachment A: Q1 FY 2022 Budget Update

Meeting Date      April 26, 2022  
 Department        Finance Department  
 Staff Lead         Robert Hamud, Chief Financial Officer

### Summary

The Fiscal Year (FY) 2021 General Fund budget revenues finished \$13.4 million higher than expenditures. This represents a decrease of \$5.2 million from the October forecast for year end, and the unaudited FY2021 actuals. A key driver was the decrease in Personnel Services expenditures due to 54 full-time positions vacated in 2021, representing nearly 22% of all budgeted full-time positions in the City. 37 of these positions were at least partially funded in the General Fund. Revenues also came in higher than forecasted by \$2.0 million, with sales tax and utility tax revenue outperforming estimates.

The following is a chart reflecting General Fund revenues and expenditures by fiscal year from 2019 through the 2022 amended budget:

### Updated Budget Forecast (Data Through Dec. 31, 2021)\* in millions (\$)

| Category                       | 2019 Actual | 2020 Actual | 2021 Actual* | 2022 Amended Budget |
|--------------------------------|-------------|-------------|--------------|---------------------|
| Revenues                       | \$ 58.0     | \$ 50.8     | \$ 66.0      | \$ 62.8             |
| Expenditures                   | \$ 62.1     | \$ 46.1     | \$ 52.6      | \$ 64.7             |
| Net Revenues over Expenditures |             | \$4.8       | \$13.4       | (\$1.9)             |

\*2021 Figures are Unaudited

The 2022 Amended budget includes the first 2022 Budget Amendment and reauthorization of 2021 appropriations approved on March 21, 2022 that added approximately \$248K of revenue and \$1.96M of expenditures to the 2022 Budget, respectively.

### General Fund Revenues

General Fund revenues completed FY2021 at \$66.0M, an increase of 30% over FY2020. The main drivers of the increase were the receipt of the first “tranche” of ARPA funds in the amount of \$5.5M as well as an overall rebound in revenues coming out of the Covid emergency and resultant economic downturn.

**Updated Revenue Forecast (Data Through Dec. 31, 2021)\***  
in millions (\$)

| Category   | 2019 Actual    | 2020 Actual    | 2021 Actual*   | 2022 Amended Budget |
|--|----------------|----------------|----------------|---------------------|
| Property Tax   | \$ 9.2         | \$ 9.5         | \$ 9.8         | \$ 10.1             |
| Sales Tax (Less .1% Affordable Housing Sales Tax)        | 16.1           | 17.3           | 19.9           | 20.4                |
| .1% Affordable Housing Sales Tax (Restricted)            | -              | -              | 2.2            | 1.9                 |
| Business and Occupation Tax                              | 5.5            | 5.4            | 6.4            | 6.4                 |
| Utility Tax  | 4.2            | 4.7            | 5.1            | 5.1                 |
| Gambling and Leasehold Excise Taxes                      | 0.3            | 0.2            | 0.3            | 0.2                 |
| <b>Departmental Revenues</b>                             |                |                |                |                     |
| Community Planning and Development                       | 4.3            | 3.5            | 5.0            | 4.3                 |
| Municipal Court/Legal                                    | 0.9            | 0.7            | 0.5            | 0.6                 |
| Police Department  | 2.0            | 2.3            | 2.3            | 2.0                 |
| Parks and Community Services                             | 1.6            | 0.9            | 3.1            | 2.7                 |
| Cost Allocation/Internal Service Charges                 | 0.8            | 1.1            | 0.7            | 1.0                 |
| Miscellaneous Revenues (Grants, Investments, Other Fees) | 11.6           | 1.9            | 3.3            | 0.6                 |
| Shared/Intergovernmental Revenues**                      | 1.2            | 2.5            | 7.0            | 7.0                 |
| Transfers In (Out)                                       | 0.4            | 0.8            | 0.6            | 0.5                 |
| <b>Total Revenues</b>                                    | <b>\$ 58.0</b> | <b>\$ 50.8</b> | <b>\$ 66.0</b> | <b>\$ 62.8</b>      |

\*2021 Figures are Unaudited

\*\*Includes ARPA Funds and other restricted revenues

Sales tax increased 15% over FY2020 driven by one-time revenues related to construction projects within the City as well as large increases for home improvement stores and auto dealerships. Restaurants also saw a robust rebound going into the end of FY2021.

Business and Occupation (B&O) Tax and Utility Tax revenues both saw increases due to the full reopening of local businesses and companies the second half of the year. Community development fees saw a significant increase mainly due to the Costco corporate headquarters project, seeing a \$1.5M increase from the previous year. Parks revenues increased due to the securing of grant funding and the resumption of recreational programs that were suspended due to Covid in 2020. The 0.1% Affordable Housing sales tax that was approved by Council in October 2020 took effect in FY2021 and generated \$2.2M in revenue.

## Expenditures

Total General Fund expenditures for FY2021 totaled \$52.7M, 14.3% higher than in FY2020. This was driven by a gradual reopening of the City and its programs and services to the public, as well as a resumption of maintenance programs and recreational programs that were scaled by due to the Covid emergency in 2020:

### Updated Expenditure Forecast (Data Through Dec. 31, 2021)\* in millions (\$)

| Category  | 2019 Actual    | 2020 Actual    | 2021 Actual*   | 2022 Amended Budget |
|---|----------------|----------------|----------------|---------------------|
| Economic Development                            | \$ 0.8         | \$ 1.7         | \$ 0.7         | \$ 0.8              |
| Community Planning and Development              | 6.9            | 5.5            | 6.3            | 7.1                 |
| Municipal Court                                 | 1.1            | 1.1            | 1.1            | 1.2                 |
| Police and Public Safety                        | 11.6           | 10.5           | 11.9           | 14.5                |
| Fire Services                                   | 7.0            | 7.3            | 7.3            | 7.6                 |
| Parks and Facilities                            | 9.3            | 7.3            | 9.4            | 10.9                |
| Community Services                              | 0.9            | 1.5            | 1.0            | 2.0                 |
| Internal Services/Administrative Departments    | 7.4            | 7.4            | 8.1            | 9.2                 |
| Non-Departmental                                | 11.6           | 1.1            | 0.0            | 0.6                 |
| Transfers Out - Debt Service - LTGO Obligations | 3.0            | 0.9            | 1.8            | 3.6                 |
| Transfers Out - Street Operating Fund           | 1.5            | 1.7            | 2.3            | 3.7                 |
| Transfers Out - Capital Project Funds           | 0.7            | -              | 2.2            | 3.3                 |
| Transfers Out- Other or Other Expenditures      | 0.3            | 0.2            | 0.4            | 0.2                 |
| <b>Total Expenditures</b>                       | <b>\$ 62.1</b> | <b>\$ 46.1</b> | <b>\$ 52.7</b> | <b>\$ 64.7</b>      |

\*2021 Figures are Unaudited

The resumption of activity in FY2021 is also reflected with Community Planning and Development that saw a large jump in local construction activity, driven by the Costco corporate headquarters project. There was also an increase in the General Fund allocations to Streets Operating and Capital Project Funds. As mentioned before, expenditures ended lower than originally forecast due to the large number of vacancies within the City. Many of these vacancies occurred in the 4<sup>th</sup> Quarter of 2021, driven by the vaccine mandates, retirements and additional turnover. Supply chain issues also prevented some maintenance projects and operational programs from being fully completed in 2021. The budget reauthorizations approved by Council in March 2022 carried forward some of these projects and programs into 2022.

## Fund Balance

FY2021 unaudited year-end fund balance totals \$33.4M, with \$23.4M representing undesignated fund balance:

### Updated Fund Balance Forecast (Data Through Dec. 31, 2021)\* in millions (\$)

| Category  | 2019 Actual | 2020 Actual | 2021 October Projection | 2021 Actual* | 2022 Amended Budget |
|---|-------------|-------------|-------------------------|--------------|---------------------|
| Beginning Fund Balance                                  | \$ 20.5     | \$ 16.3     | \$ 20.0                 | \$ 20.0      | \$ 33.4             |
| Revenues  | 58.0        | 50.8        | 64.1                    | 66.0         | 62.8                |
| Expenditures  | 62.1        | 46.1        | 57.9                    | 52.6         | 64.7                |
| Net Revenues over Expenditures                          | (4.1)       | 4.8         | 6.2                     | 13.4         | (1.9)               |
| Ending Fund Balance                                     |             |             | 26.2                    | 33.4         | 31.5                |
| Designated Fund Balance                                 |             |             | 8.9                     | 10.0         | 15.1                |
| Undesignated Fund Balance                               |             |             | \$ 17.3                 | \$ 23.4      | \$ 16.4             |
| <b>Undesignated Fund Balance as a % of expenditures</b> |             |             | <b>30%</b>              | <b>44%</b>   | <b>25%</b>          |

Undesignated fund balance ended FY2021 at 44% of annual expenditures, well above the council target policy of 15-20%. However, the FY2022 amended budget assumes spending down the fund balance closer to the Council target. This includes the impact of the budget reauthorizations and amendment approved by Council in March 2022. The designated fund balance amount includes the first “tranche” in ARPA funds in 2021 of \$5.5 million less initial expenses and the second “tranche” of ARPA funds in 2022.

## FY 2022 Current Conditions

The City is hiring aggressively, filling positions throughout the City, including key positions in the Police Department, and there is not an expected repeat in the number of vacancies that occurred in FY2021. The first quarter of 2022 did see an impact of the supply chain shortage, and the local concrete strike impacted some City projects, especially on the Capital side. Most departments expect FY2022 to be a fully active year, with full public works maintenance and parks recreational activities resuming in the City, for example. Covid-19 continues to be an uncertain factor that may impact the fiscal year as of April 2022.

Inflation is a concern for the City, with the Consumer Price Index for the Western United States (CPI-W) up 12.9% in March 2022 over March 2021, driven by higher energy, housing, construction and food costs. Most economists see the inflation rate curving lower by the end of the year, however the cost of petroleum-based products and materials is expected to remain high. Some national economists are predicting a recession within 18-24 months, although the forecast is still unclear.

Shorter term, the local housing market is still strong with Real Estate Excise Tax (REET) revenues for the City up 8.2% in the 1<sup>st</sup> Quarter of 2022 compared to the 1<sup>st</sup> Quarter of 2021. As of April 2022, the average 30-year fixed and jumbo mortgage rates are over 5.2%; the Federal Reserve is expected to raise interest rates in May, which will have an uncertain impact on both the housing market and the economy as a whole.

## Q1 FY 2022 General Fund Expenditure Actuals

The following chart reflects year-to-date actual expenditures for the General Fund. Please keep in mind that first quarter numbers are very preliminary:

### 1Q FY 2022 Expenditure Actuals (Data through 3/31/22)\*

| Category                                     | 2021 Actual*         | 2022 Amended Budget  | 2022 Actual through 3/31/22 | % of total budget |
|--|----------------------|----------------------|-----------------------------|-------------------|
| Economic Development                         | \$ 727,422           | \$ 789,783           | \$ 124,923                  | 15.8%             |
| Community Planning and Development           | 6,304,052            | 7,121,802            | 1,389,796                   | 19.5%             |
| Municipal Court                              | 1,140,480            | 1,204,786            | 227,324                     | 18.9%             |
| Police and Public Safety                     | 11,871,890           | 14,528,765           | 3,209,368                   | 22.1%             |
| Fire Services (Eastside Contract)            | 7,295,831            | 7,605,172            | 2,535,057                   | 33.3%             |
| Parks and Facilities                         | 9,446,757            | 10,928,778           | 1,793,264                   | 16.4%             |
| Human/Community Services                     | 1,015,887            | 2,000,698            | 250,164                     | 12.5%             |
| Internal Services/Administrative Departments | 8,126,579            | 9,236,709            | 2,064,689                   | 22.4%             |
| Non-Departmental                             | 10,971               | 563,398              | -                           | 0.0%              |
| Interfund Transfers Out                      | \$ 6,699,362         | \$ 10,758,569        | \$ 7,209,614                | 67.0%             |
| <b>Total Expenditures</b>                    | <b>\$ 52,639,231</b> | <b>\$ 64,738,460</b> | <b>\$ 18,804,198</b>        | <b>29.0%</b>      |

\*2021 Figures are Unaudited

## Budget Next Steps

The Administration is working on preparing the 2023-24 biennial budget process for the City. Since this will be the first biennial budget that Issaquah has produced, there will be multiple opportunities for Council to participate, as well as a Committee of the Whole meeting tentatively slated for May, to go over the components of the biennial budget process in detail. The following is a tentative Council budget calendar, subject to change:

### City Council 2023-24 Biennial Budget Schedule (Preliminary-Subject to Change)

| Date         | Venue                                 | Topic   |
|--------------|---------------------------------------|---|
| July 16      | Committee of the Whole                | Council Budget Priorities   |
| August 8     | Committee of the Whole                | Revenue Forecast and Midyear Update   |
| August 10    | Community Meeting                     | Revenue Forecast and Midyear Update   |
| September 19 | <b>Regular City Council Meeting</b>   | <b>Transmit Budget &amp; Mayor's Presentation</b>                           |
| September 27 | Committee of the Whole                | Budget Overview   |
| September 28 | Public Meeting                        | Budget Overview   |
| October 3    | <b>Regular City Council Meeting</b>   | 1st Budget Public Hearing & Public Hearing for Property Tax Levy/Revenue    |
| October 4    | Planning, Development and Environment | Budget Deliberations  |
| October 10   | Committee of the Whole                | Budget Deliberations  |
| October 11   | Infrastructure Committee              | Capital Budget  |
| October 17   | Regular City Council Meeting          | Budget Deliberations (if needed)  |
| October 18   | Services, Safety and Parks            | Capital Budget  |
| October 25   | Committee of the Whole                | Budget Deliberations (if needed)  |
| November 7   | <b>Regular City Council Meeting</b>   | <b>Property Tax Levy/Revenue Adoption &amp; Anticipated Budget Adoption</b> |