

2013 First Quarter Financial Report

AT A GLANCE:

- **Building Permit revenue continues to perform strongly due to the expansion of a large construction project in the Issaquah Highlands and an increase in Single Family development.**
- **Sales tax revenue continues its upward trend with an increase in tax related to the construction and retail trades**

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Introduction

The Quarterly Financial Status Report provides a summary budget-to-actual comparison of revenue and expenditures for the General Fund and Utility Funds through the end of the most recently completed fiscal quarter.



Deer spotted on Pickering Trail

Revenue and expenditure comparisons are also made to the same period in prior years. Relevant statistical summaries are provided if deemed pertinent.

In addition, an update on the current national and local economic outlook is provided.

Performance at a Glance

	Year-End Projections	Compared to Budget
General Fund Expenditure vs. Budget	Neutral	0.7%
General Fund Revenue vs. Budget	Neutral	0.8%
Tax Performance	Neutral	1.0%
Utility Funds Expenditures vs. Budget	Positive	-3.1%
Utility Funds Revenues vs. Budget	Neutral	1.0%

Key to Expenditure Trend Indicators

Neutral	= variance of -1.0% to 1.0%
Positive	= variance > -1.0%
Warning	= variance > 1.0%

Key to Revenue Trend Indicators

Neutral	= variance of -1.0% to 1.0%
Positive	= variance > 1.0%
Warning	= variance > -1.0%

General Fund: First Quarter Highlights

Revenue

The primary revenue sources for the General Fund include property tax, sales tax, and business and occupation tax. Together, sales tax and utility taxes comprise about 57% of the General Fund revenue. These revenue sources are highly dependent on the local economy.

First quarter revenue was \$7,144,451, which is 15% greater than first quarter 2012 and 21% of the 2013 budgeted amount.

Typically, revenue received in the first quarter of the year represents about 20% of the total budgeted revenue for the year.

Building permit and sales tax revenue were the major contributors to the increase over 2012, coming in at 102% and 19% greater respectively.

The extreme jump in building permit revenue is related to the continued expansion of the Regency development project in the Issaquah Highlands.

This increase in development affects Sales tax positively as well.

Expenditures

Expenditures for the first quarter were \$9,442,017 - 27% of the 2013 budgeted amount.

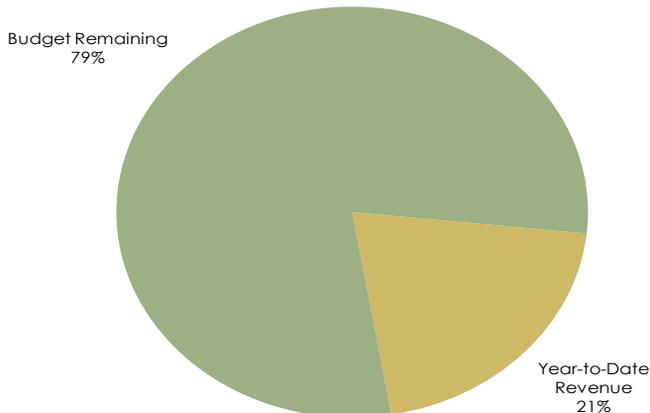
On a four-year average, the first quarter usually represents 26% of total budgeted expenditures.

Expenditures vs. Revenues

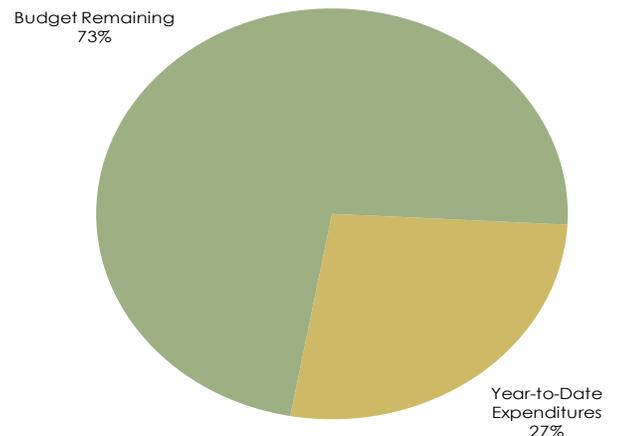
First quarter typically results in a negative expenditure to revenue coverage due to the City not receiving property tax revenue until the second quarter.

General Fund	Year-to-Date Actual
Revenue	\$ 7,144,451
Expenditures	9,442,017
Net Difference	\$ (2,297,566)

Revenue

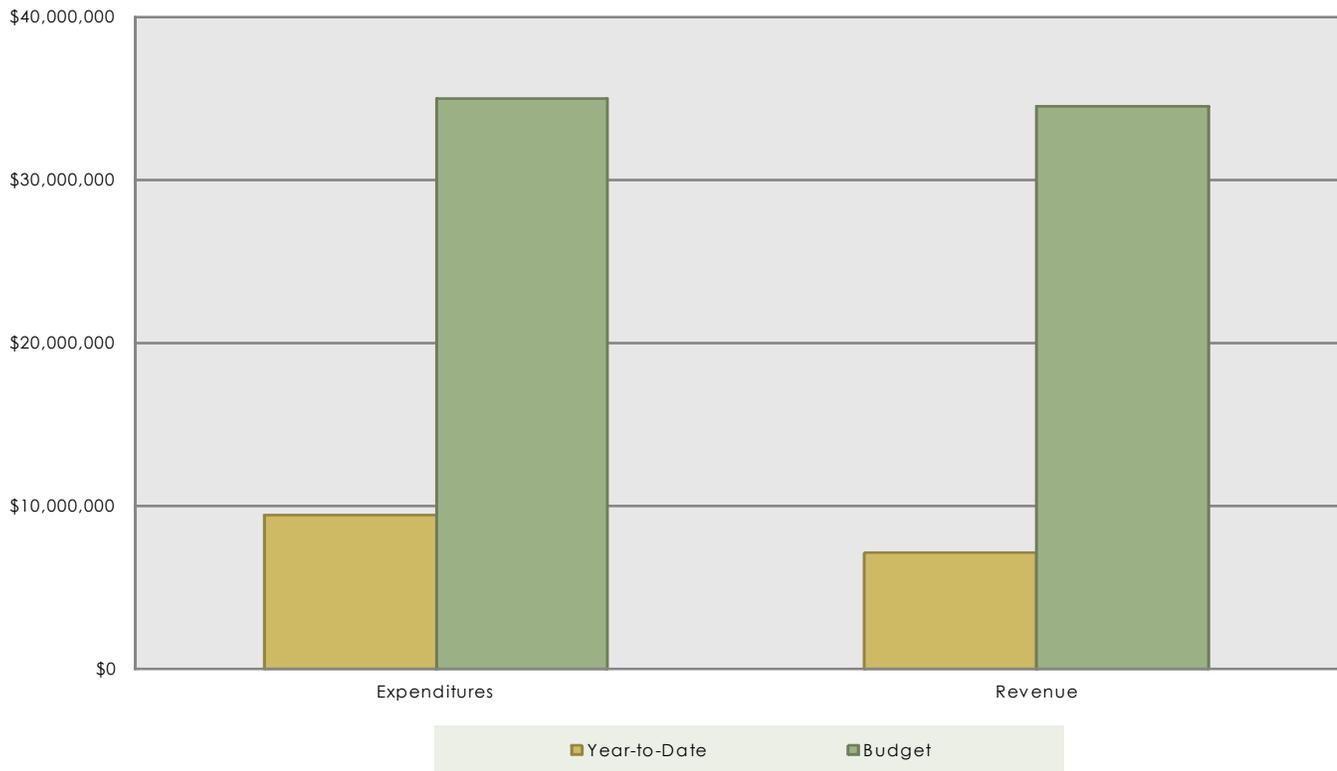


Expenditures



General Fund: First Quarter Performance

Year-to-Date Expenditures and Revenue: Budget to Actual



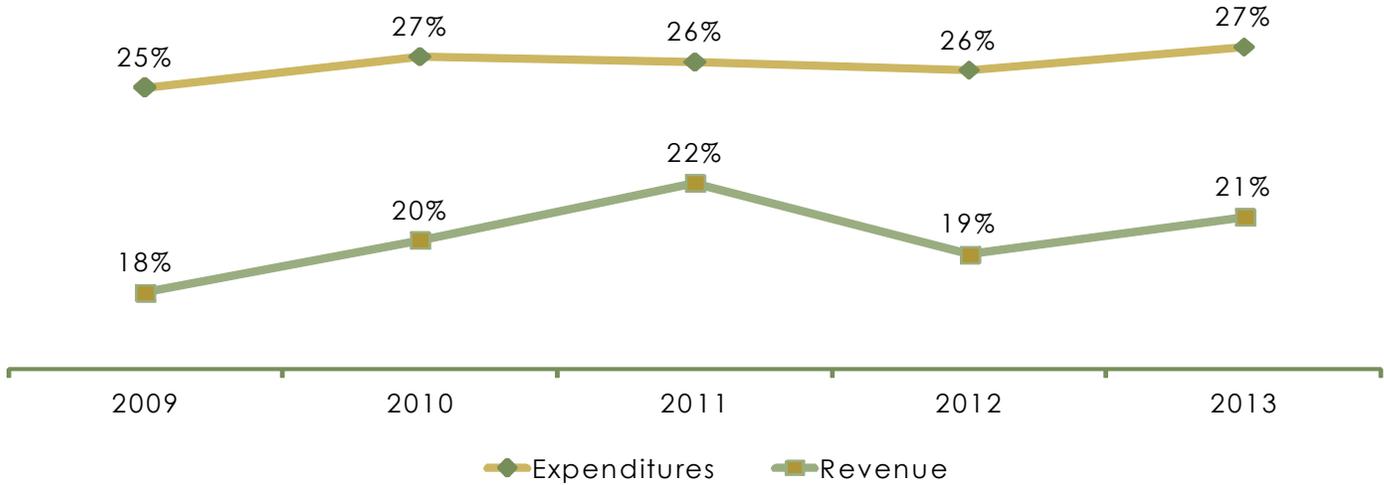
General Fund	Actual for the Quarter	Year-to-Date Actual	Budget	Year-to-Date % of Budget
Revenue	\$ 7,144,451	\$ 7,144,451	\$ 34,576,314	21%
Expenditures	\$ 9,442,017	\$ 9,442,017	\$ 34,977,314	27%

Four-Year Comparison of Actual Expenditures & Revenue Through First Quarter

General Fund	2010 Actual	2011 Actual	% Change From 2010	2012 Actual	% Change From 2011	2013 Actual	% Change From 2012
Revenue	\$ 5,904,682	\$ 6,582,536	11%	\$ 6,189,250	-6%	\$ 7,144,451	15%
Expenditures	\$ 7,931,791	\$ 8,036,539	1%	\$ 8,491,970	6%	\$ 9,442,017	11%

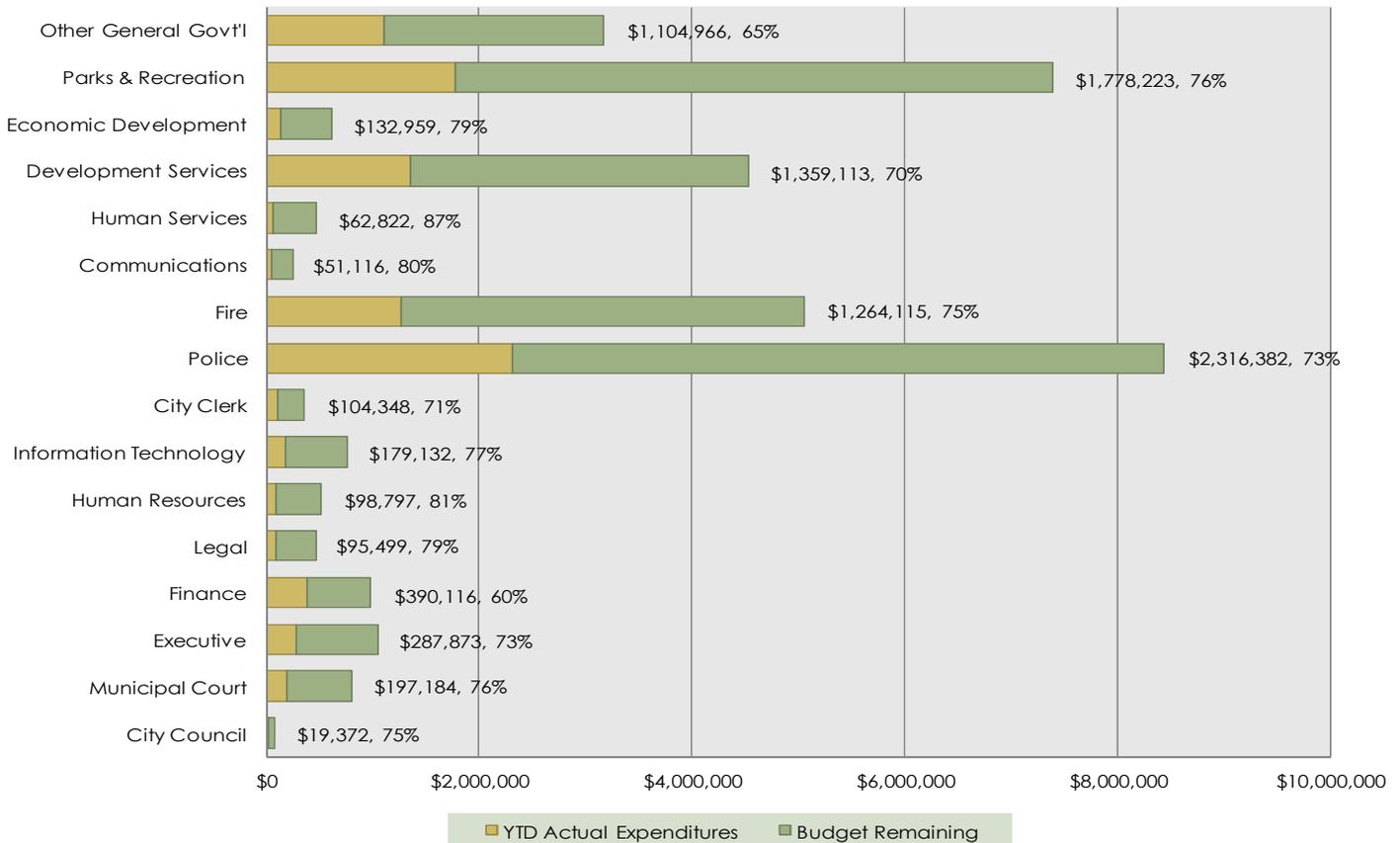
General Fund: Historical Comparison

Actual Expenditures & Revenue Through First Quarter as a Percentage of Budget



General Fund Departments

Department Expenditures & Percent of Annual Budget Remaining - Year-to-Date



General Fund Departmental Expenditures as a Percentage of Budget

Department Name	2010	2011	2012	2013	4 yr Average
City Council	26%	25%	28%	25%	26%
Municipal Court	25%	24%	22%	24%	24%
Executive	28%	27%	22%	27%	26%
Finance	31%	31%	29%	40% ^(a)	33%
Legal	21%	21%	23%	21%	21%
Human Resources	32%	33%	29%	19% ^(b)	28%
Information Technology	26%	24%	26%	23%	25%
City Clerk	25%	25%	28%	29%	27%
Police	25%	27%	26%	27%	26%
Fire	25%	25%	25%	25%	25%
Communications	n/a	n/a	n/a	20%	20%
Human Services	14%	12%	11%	13%	12%
Development Services	29%	29%	29%	30%	29%
Economic Development	n/a	n/a	n/a	21%	21%
Parks & Recreation	24%	24%	25%	24%	24%
Other General Gov't'l	36%	33%	29%	35%	33%

The Communications and Economic Development Departments will begin their first full year of reporting beginning with the 1st Quarter of 2013.

Department Expenditures: Explanation of Significant Budget Variance

(a) **Finance 40%** - The previously vacant Deputy Finance Director position was filled fourth quarter 2012, in addition to the retirement of a long-term employee account for the higher than historical percent of budget.

(b) **Human Resources 19%** - Health

Reimbursement Account (HRA) expenses have been historically budgeted and expended in the Human Resources budget. Beginning in 2013, the expenses were distributed to the individual department budgets. A mid-year adjustment will move the HRA budget to those department budgets.

General Fund: Major Revenue Sources

Four-Year Comparison of Actual Revenue Received Through First Quarter



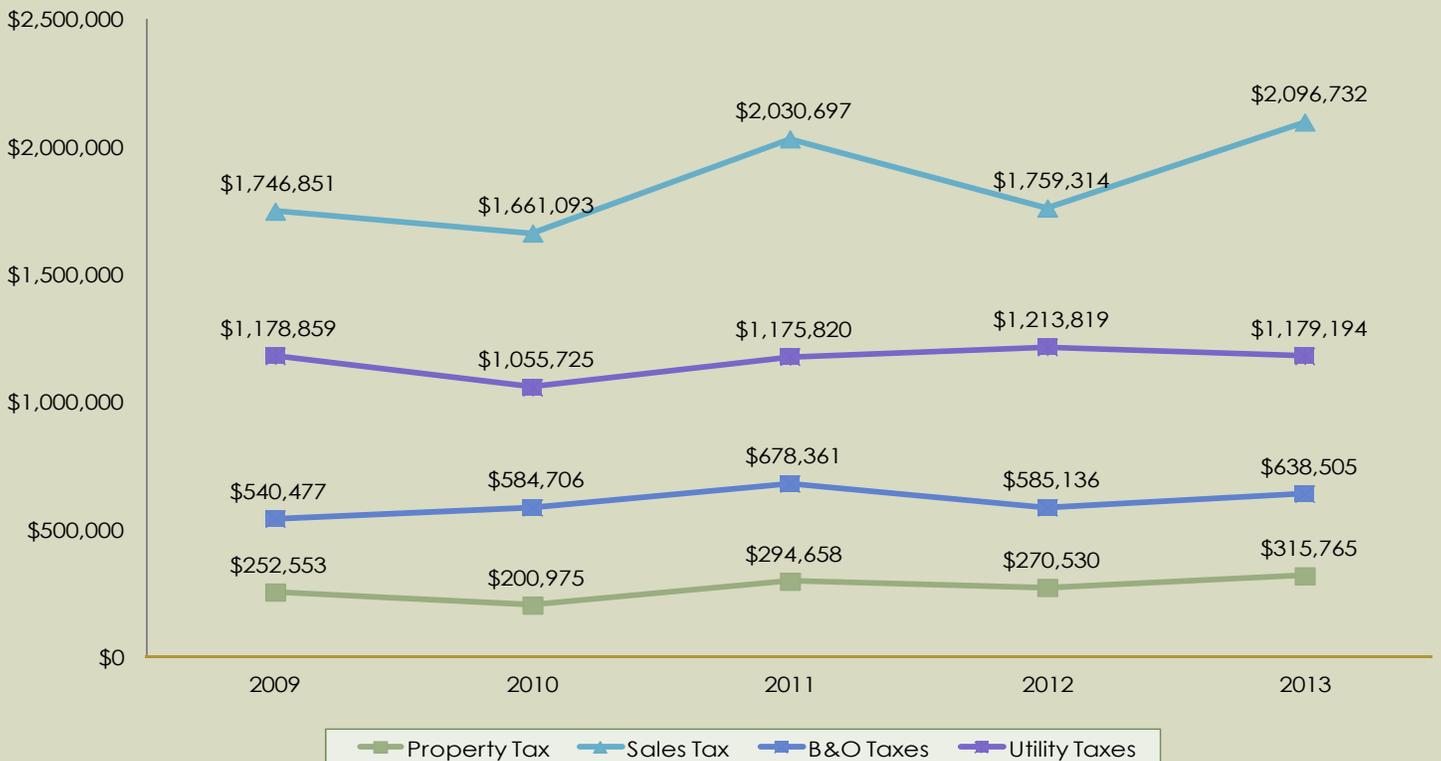
Major Revenue Sources	2010 Actual	2011 Actual	% Change From 2010	2012 Actual	% Change From 2011	2013 Actual	% Change From 2012
Property Tax	\$ 200,975	\$ 294,658	47%	\$ 270,530	-8%	\$ 315,765	17%
Sales Tax	\$ 1,661,093	\$ 2,030,697	22%	\$ 1,759,314	-13%	\$ 2,096,732	19%
B&O Tax	\$ 584,706	\$ 678,361	16%	\$ 585,136	-14%	\$ 638,505	9%
Utility Taxes	\$ 1,055,725	\$ 1,175,820	11%	\$ 1,213,819	3%	\$ 1,179,194	-3%
Building Permits	\$ 596,949	\$ 237,344	-60%	\$ 247,604	4%	\$ 501,220	102%
Jail Services	\$ 263,207	\$ 361,823	37%	\$ 355,890	-2%	\$ 301,232	-15%
Court Fines/Fees	\$ 259,561	\$ 277,196	7%	\$ 288,831	4%	\$ 208,722	-28%
Recreation Fees	\$ 521,559	\$ 566,739	9%	\$ 585,701	3%	\$ 681,366	16%

General Fund Revenue: Major Taxes

Major Tax Source	Actual for the Quarter	Year-to-Date Actual	Budget	Year-to-Date % of 2013 Budget
Property Tax	\$ 315,765	\$ 315,765	\$ 7,129,954	4%
Sales Tax	\$ 2,096,732	\$ 2,096,732	\$ 8,190,000	26%
B&O Tax	\$ 638,505	\$ 638,505	\$ 2,450,000	26%
Utility Taxes	\$ 1,179,194	\$ 1,179,194	\$ 4,365,000	27%
Total Major Taxes	\$ 4,230,196	\$ 4,230,196	\$ 22,134,954	19%

Property Tax is mostly received in April/May and October/November.

Four-Year Comparison of Actual Revenue Received Through First Quarter



Utility Funds Performance: Expenditures

In the first quarter of 2013, the City changed how it reports year-end expenditures. The timeline for the reporting was adjusted to better match the expenditure to the fiscal year in which it was incurred.

This change in the accounting process is primarily visible in the charts and tables that compare first quarter of 2013 to the historical percentage of budget expended for each fund.

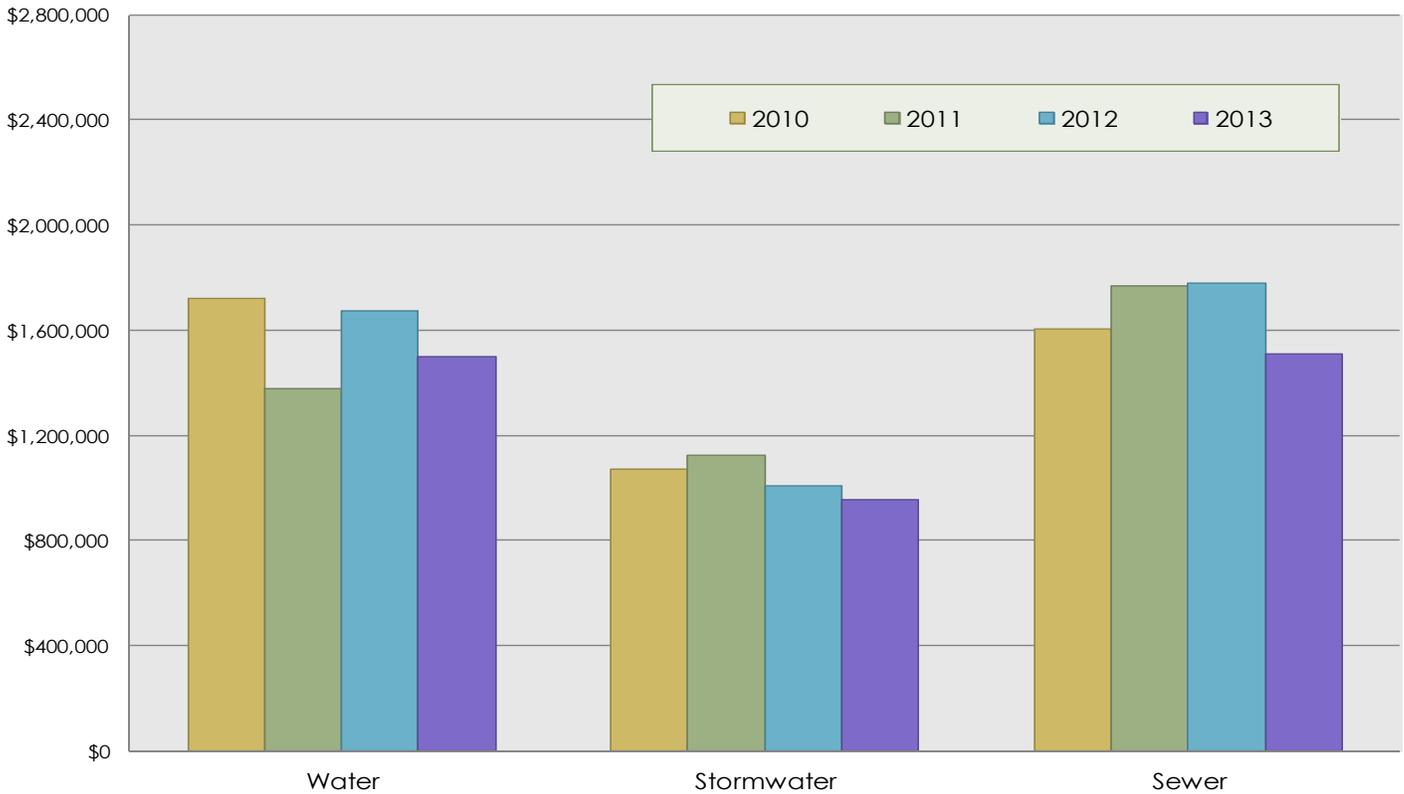
Utility Operating Funds Year-to-Date Expenditures: Budget to Actual

Utility Fund Name	1st Quarter Actual	Total Year-to-Date Actual	Total Budget	% of Total Budget Used
Water	\$ 1,498,853	\$ 1,498,853	\$ 6,712,495	22%
Stormwater	\$ 957,823	\$ 957,823	\$ 4,276,792	22%
Sewer	\$ 1,512,106	\$ 1,512,106	\$ 7,850,675	19%

Actual Expenditures as a Percentage of Budget Through First Quarter

Utility Fund Name	2010	2011	2012	2013	4-year Average
Water	24%	22%	27%	22%	24%
Stormwater	26%	27%	25%	22%	25%
Sewer	25%	26%	25%	19%	24%

Four-Year Comparison of Actual Expenditures Through First Quarter

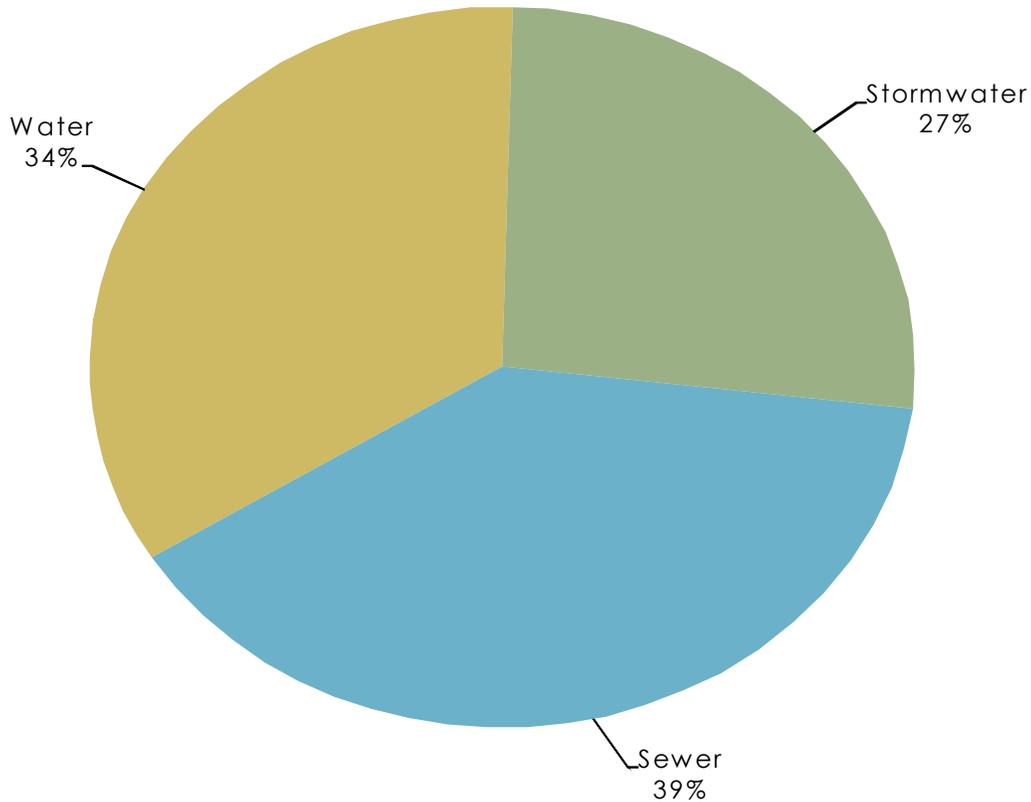


Utility Fund Name	2010 Actual	2011 Actual	% Change from 2010	2012 Actual	% Change from 2011	2013 Actual	% Change from 2012
Water	\$ 1,722,926	\$ 1,376,986	-20%	\$ 1,672,226	21%	\$ 1,498,853	-10%
Stormwater	\$ 1,072,534	\$ 1,126,453	5%	\$ 1,009,094	-10%	\$ 957,823	-5%
Sewer	\$ 1,604,562	\$ 1,771,169	10%	\$ 1,777,206	0%	\$ 1,512,106	-15%

- 2011 Sewer includes a METRO pass-through increase of 13.2%
- 2013 Sewer includes a METRO pass-through increase of 10%

Utility Funds Performance: Revenue

Actual Revenue Received Through First Quarter 2013: Distribution by Utility



Utility Funds Year-to-Date Revenue: Budget to Actual

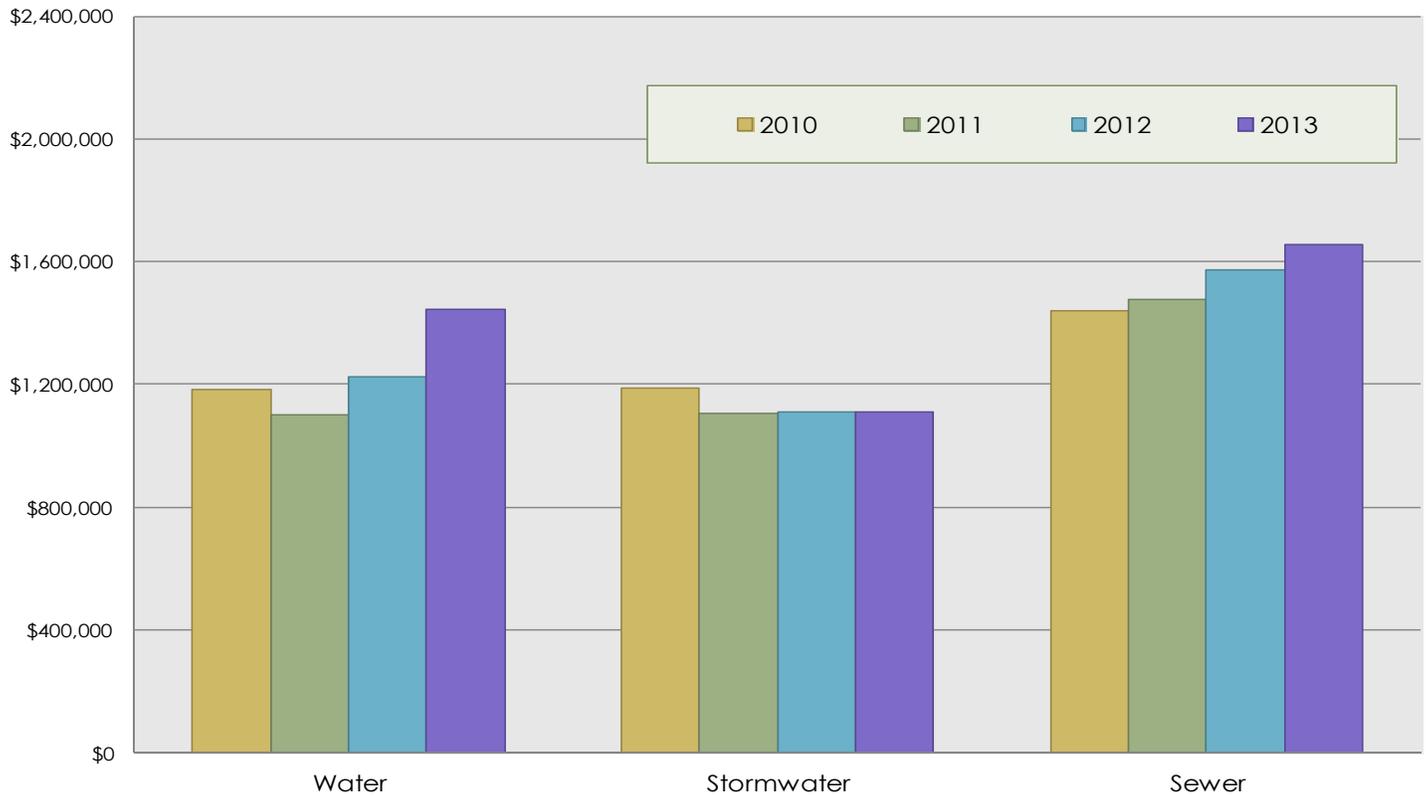
Utility Fund Name	1st Quarter Actual	Total Year-to-Date Actual	Total Budget	% of Total Budget Used
Water	\$ 1,445,245	\$ 1,445,245	\$ 6,358,424	23%
Stormwater	\$ 1,111,626	\$ 1,111,626	\$ 4,284,812	26%
Sewer	\$ 1,655,549	\$ 1,655,549	\$ 7,647,774	22%

Utility Funds Actual Revenue as a Percentage of Budget Through First Quarter

Utility Fund Name	2010	2011	2012	2013	4-year Average
Water	18%	18%	19%	23%	20%
Stormwater	28%	27%	26%	26%	27%
Sewer	22%	21%	22%	22%	21%

Four-Year Comparison of Actual Revenue Through First Quarter

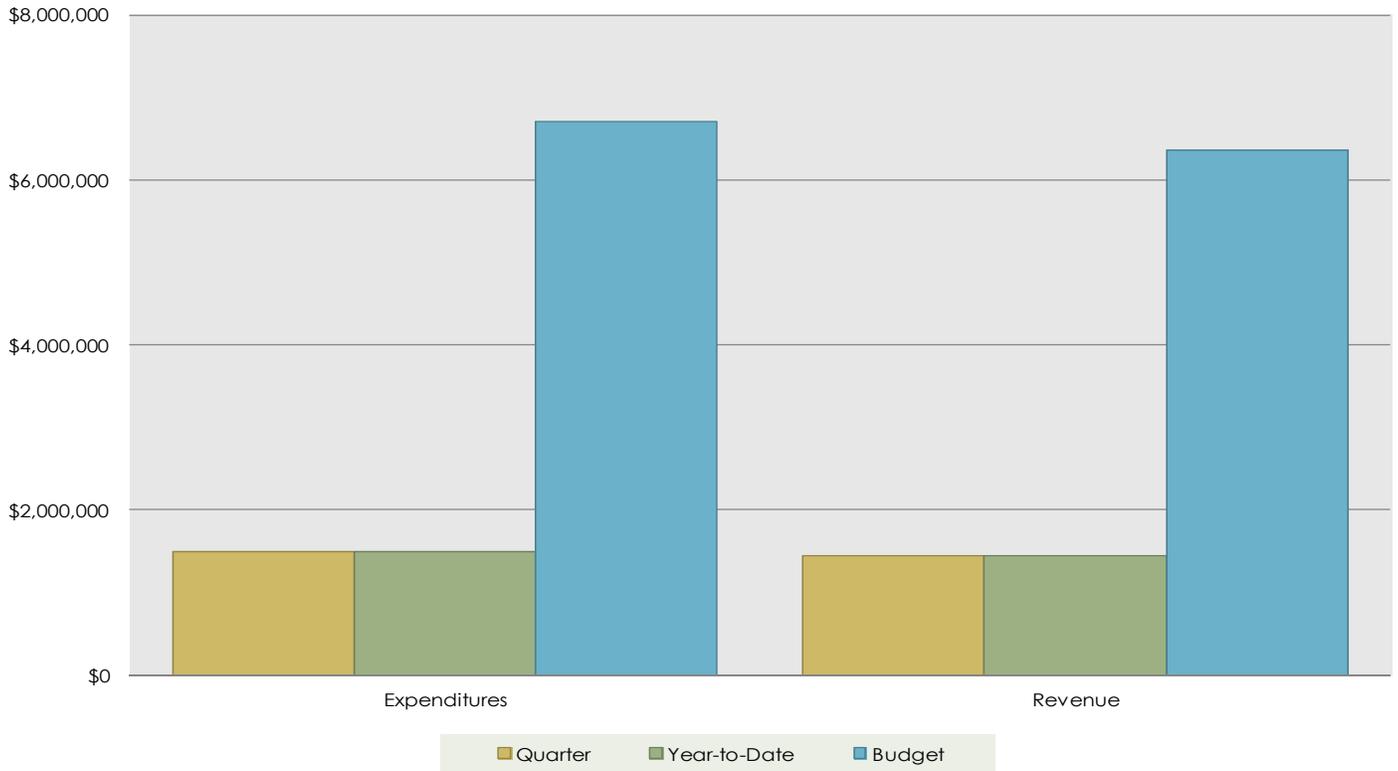
Utility Fund Name	2010 Actual	2011 Actual	% Change from 2010	2012 Actual	% Change from 2011	2013 Actual	% Change from 2012
Water	\$ 1,181,666	\$ 1,099,090	-7%	\$ 1,224,268	11%	\$ 1,445,245	18%
Stormwater	\$ 1,185,947	\$ 1,106,959	-7%	\$ 1,109,105	0%	\$ 1,111,626	0%
Sewer	\$ 1,442,042	\$ 1,476,554	2%	\$ 1,571,401	6%	\$ 1,655,549	5%



- Water revenue reflects a 9% rate increase which began with the February 2012 bill
- Sewer revenue includes a METRO pass-through increase of 13.2% in 2011 and 10.4% in 2013

Individual Utility Funds Performance

Water Operating Fund Expenditures and Revenue
Through 1st Quarter

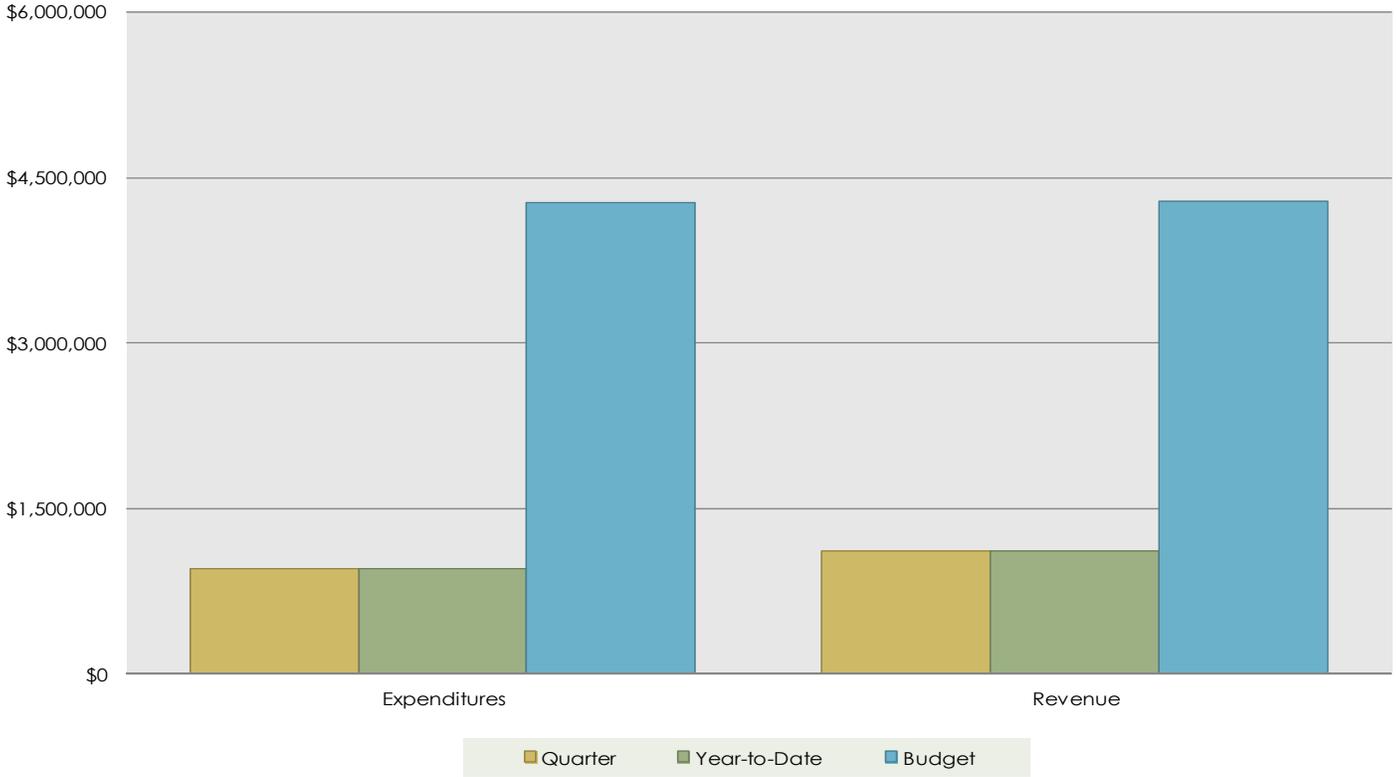


Water Operating Fund	1st Quarter Actual	Total Year-to-Date Actual	Total Budget	% of Total Budget Used
Revenue	\$ 1,445,245	\$ 1,445,245	\$ 6,358,424	23%
Expenditures	\$ 1,498,853	\$ 1,498,853	\$ 6,712,495	22%
Net Difference	\$ (53,607)	\$ (53,607)	\$ (354,071)	

Net Difference is the use of operating funds for budgeted capital projects.

Individual Utility Funds Performance

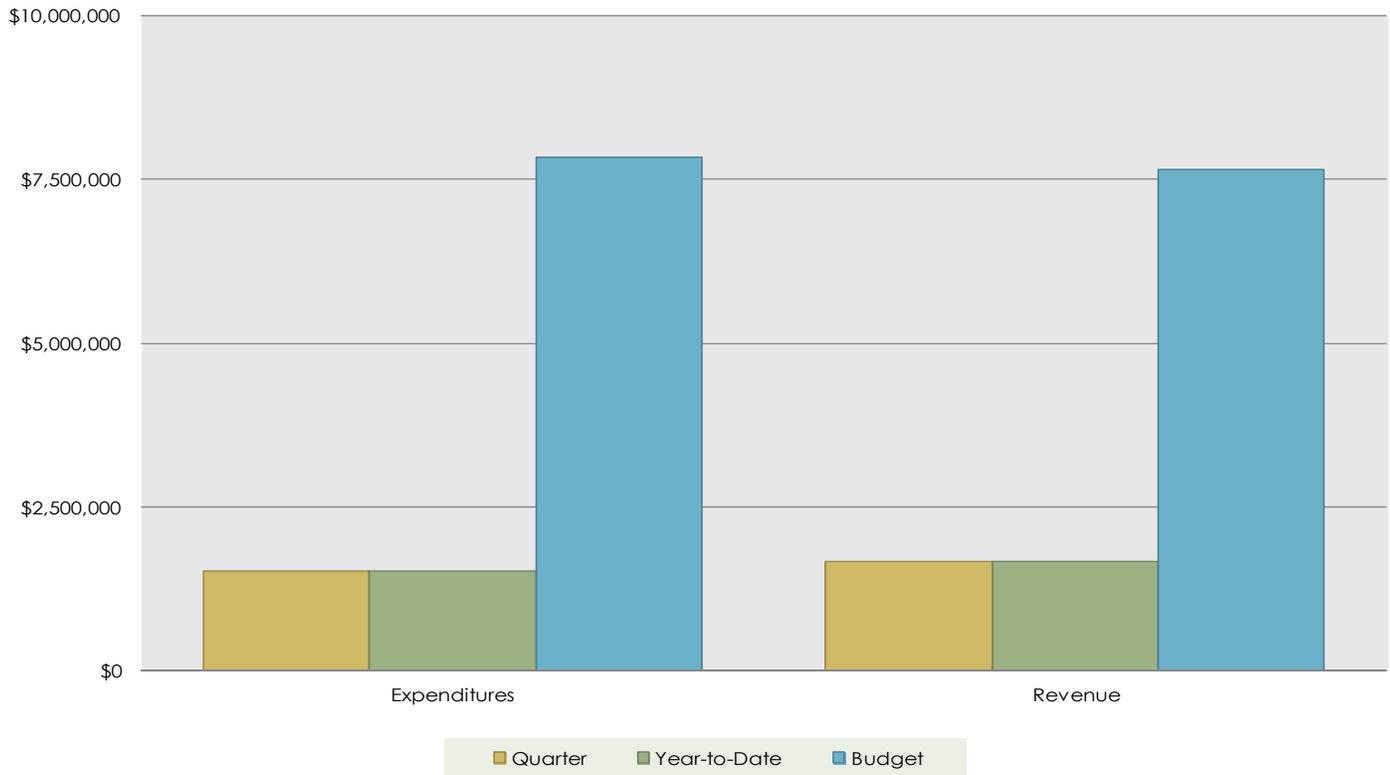
Stormwater Operating Fund Expenditures and Revenue Through 1st Quarter



Stormwater Operating Fund	1st Quarter Actual	Total Year-to-Date Actual	Total Budget	% of Total Budget Used
Revenue	\$ 1,111,626	\$ 1,111,626	\$ 4,284,812	26%
Expenditures	\$ 957,823	\$ 957,823	\$ 4,276,792	22%
Net Difference	\$ 153,803	\$ 153,803	\$ 8,020	

Individual Utility Funds Performance

Sewer Operating Fund Expenditures and Revenue Through 1st Quarter



Sewer Operating Fund	1st Quarter Actual	Total Year-to-Date Actual	Total Budget	% of Total Budget Used
Revenue	\$ 1,655,549	\$ 1,655,549	\$ 7,647,774	22%
Expenditures	\$ 1,512,106	\$ 1,512,106	\$ 7,850,675	19%
Net Difference	\$ 143,443	\$ 143,443	\$ (202,901)	

Net Difference is the use of operating funds for budgeted capital projects.

The majority of the Sewer Operating Fund revenue and expenses are directly related to King County METRO Sewer pass-through charges. King County METRO provides sewer treatment services to the City of Issaquah's Sewer Utility customers.

In 2011 the METRO pass-through charges increased 13.2% , and in 2013 increased an additional 10.4%.

KC Metro Sewer	2010 Actual	2011 Actual	% Change from 2010	2012 Actual	% Change from 2011	2013 Actual	% Change from 2012
Expenses	\$ 1,072,921	\$ 1,221,814	14%	\$ 1,183,003	-3%	\$ 853,320	-28%
% of Total Expenses	67%	69%		67%		56%	
Revenue	\$ 1,003,824	\$ 1,044,006	4%	\$ 1,124,977	8%	\$ 1,198,214	7%
% of Total Revenue	70%	71%		72%		72%	

Sewer Fund Revenue	2010 Actual	2011 Actual	% Change from 2010	2012 Actual	% Change from 2011	2012 Total Budget	% of 2012 Budget
METRO	\$ 1,003,824	\$ 1,044,006	4%	\$ 1,124,977	8%	\$ 1,198,214	7%
City Sewer	\$ 436,177	\$ 425,081	-3%	\$ 446,245	5%	\$ 456,796	2%

Economic Environment Update

Economic Outlook

The national and Washington economies continue to move forward at a modest pace. Economic fundamentals continue to improve and private-sector growth has firmed.

Federal fiscal policy remains at the forefront of economic uncertainty. Automatic spending cuts and higher taxes have reduced personal income.

The sovereign debt crisis in Europe remains a significant threat to the U.S. economy. If this leads to a financial crisis, the U.S. economy

	March 2012	March 2013
United States		
Unemployment Rate	8.2%	7.6%
Washington		
Unemployment Rate	8.4%	7.3%
Resident Labor Force	3,492,800	3,473,900
Unemployed	293,000	254,000
Seattle/Bellevue/Everett		
Unemployment Rate	7.3%	5.5%
Resident Labor Force	1,502,600	1,508,300
Unemployed	109,600	82,700

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could enter a new recession as well.

The housing sector has continued to show further signs of improvement. The level of activity is not yet back to normal, but it is clear that the sector has finally turned a corner. New home sales, single-family housing starts, and single-family permits have all continued trending up in recent months.

First Quarter Building Permit Activity in Issaquah

Permit Type	2011	2012	2013
Single Family:			
New	19	35	27
Alterations	15	13	11
Multi-family:			
New	0	0	0
Alterations	8	3	0
Commercial:			
New	0	2	9
Alterations	28	21	39

in June 2012 but only 2.1% in February 2013.

The Seattle index is calculated bi-monthly.

(Source: U.S. Bureau of Labor Statistics)

Consumer Confidence

After three straight months of increases and a four-year high of 73.1 reached in October, the Conference Board index of consumer confidence fell to

59.7 in March.

The manufacturing sector, which had been a bright spot in the recovery, has lost momentum.

(Source: State of Washington Economic & Revenue Forecast Council, March 2013 Report)

Consumer Price Index

Inflation in the Seattle metropolitan area has cooled substantially since last summer.

As of February 2013, the all items Seattle CPI was up just 1.8% over the previous February, down from 2.7% inflation last June. Seattle core inflation in February 2013 was also 1.8%, down from 3.0% eight months earlier.

The main reason for the reduction in Seattle area inflation was shelter costs which rose 3.9%

Number of Active Issaquah Business Licenses

2010	4,646
2011	4,331
2012	4,715
2013**	4,753

**1,055 active licensees have applied for and qualified to file B&O Tax returns annually

The drop in consumer confidence was primarily driven by a sharp decline in expectations and pessimism about current conditions.

The loss of confidence, particularly expectations, mirrors the losses experienced this past December and January. The recent sequester has created uncertainty regarding the economic outlook and as a result, consumers are less confident.

An index of 90 indicates a stable economy and one at or above 100 indicates growth.

(Source: Lynn Franco, Director of Economic Indicators The Conference Board Research Center, March 26, 2013)