CITY OF ISSAQUAH WASHINGTON

2014 First Quarter Financial Status Report

AT A GLANCE:

- **Sales tax maintained its 2013 gains as a result of a stronger economy and the continued strength in the construction sector.**
- **Some building permit revenue is being billed on a time and materials basis resulting in a time lag in collection in 2014 versus up front payment in 2013 and prior.**

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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 for the quarter ended March 31, 2014.

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.

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Performance at a Glance

	Year-to-Date Performance	Compared to Budget
General Fund Expenditure vs. Budget	Neutral	-0.9%
General Fund Revenue vs. Budget	Neutral	0.5%
Tax Revenue Performance	Neutral	1.0%
Utility Funds Expenditures vs. Budget	Positive	-3.0%
Utility Funds Revenues vs. Budget	Neutral	0.1%

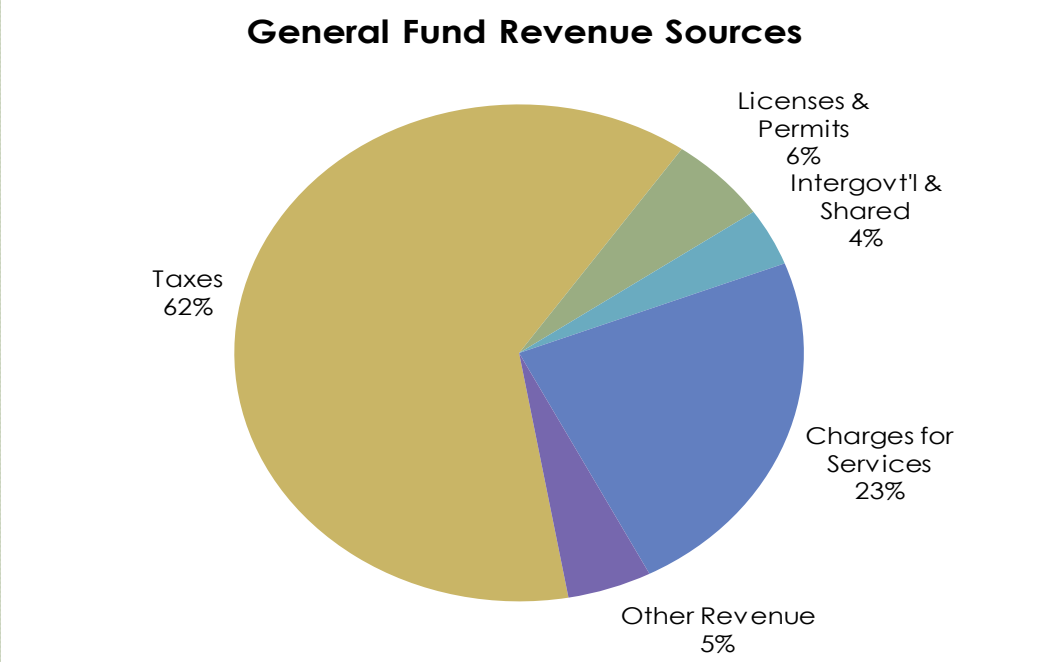
Key to ExpenditureTrend Indicators		Key to Revenue Trend Indicators	
Neutral	= variance of -1.0% to 1.0%	Neutral	= variance of -1.0% to 1.0%
Positive	= variance > -1.0%	Positive	= variance > 1.0%
Warning	= variance > 1.0%	Warning	= variance > -1.0%

Prepared May 20, 2014

General Fund: First Quarter Highlights

Revenue

The primary revenue sources for the General Fund include sales tax, property tax, business and occupation (B&O) tax and utility taxes. Together, these taxes comprise about 62% of the total General Fund revenue. Sales and B&O tax revenue sources are highly dependent on the local economy.

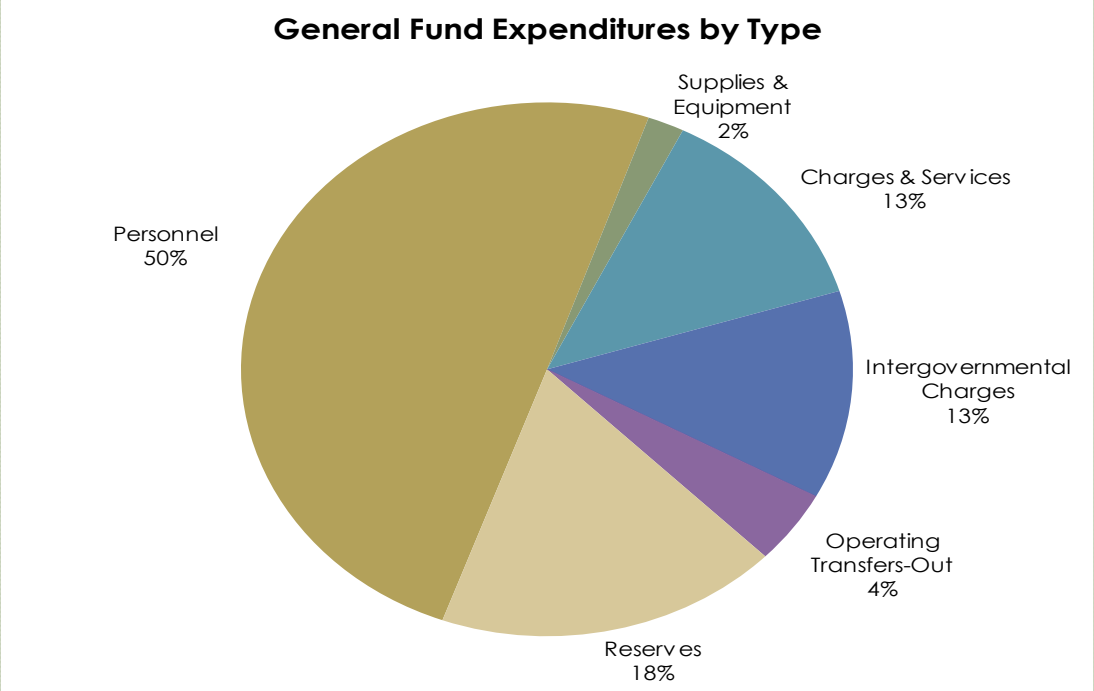


Year-to-date revenue as of March 31 was $7,508,924 – 21% of the 2014 budgeted amount, and 5% higher than the same period in 2013. Revenue from the four major sources of tax revenue - property, sales, B&O and utility taxes - showed increases in all categories for 2014 versus 2013 coming in at

General Fund Major Revenue Sources - Actual Revenue Received

For the Quarter Ended March 31

Revenue Source	2011 Actual	2012 Actual	2013 Actual	2014 Actual	% Change From 2013
Property Tax	$ 294,658	$ 270,530	$ 315,765	$ 457,771	45%
Sales Tax	$ 2,009,398	$ 1,735,443	$ 2,067,830	$ 2,251,700	9%
B&O Tax	$ 678,361	$ 585,136	$ 640,326	$ 673,773	5%
Utility Taxes	$ 1,200,213	$ 1,237,690	$ 1,208,131	$ 1,312,363	9%
Building Permits	$ 237,344	$ 247,604	$ 502,222	$ 329,692	-34%
Jail Services	$ 361,823	$ 355,890	$ 301,400	$ 298,988	-1%
Court Fines/Fees	$ 277,196	$ 288,831	$ 224,808	$ 263,065	17%
Recreation Fees	$ 560,997	$ 580,410	$ 682,945	$ 721,013	6%



45%, 9%, 5%, and 9% greater respectively.

The increase in property tax received in 2014 compared to 2013 is primarily attributed to tax payers remitting their tax payments before the April due date.

The majority of property tax is remitted to the City in the second and fourth quarters.

Building permit revenue decreased significantly in 2014 compared to 2013. The decline is not so much related to a loss in revenue as a change in how and when some review fees are paid.

Beginning in 2014, some developers have chosen to pay review fees based on a time and materials basis. This equates to approximately $200,000 in accounts receivable at the time of publication.

Court Fines/Fees revenue are up 17% over first quarter 2013. The increase is mainly attributed to an increase in photo enforcement citations.

In 2014, 1,339 photo enforcement citations were issued in the first quarter as compared to 732 in the first quarter of 2013.

Expenditures

Expenditures ended the quarter at $9,105,307 - 25% of the 2014 budgeted amount. This figure is 4% less than first quarter 2013 and 1% less than the four-year average of 26%.

General Fund - Actual Expenditures & Revenue

For the Quarter Ended March 31

General Fund	2011 Actual	2012 Actual	2013 Actual	2014 Actual	*% Change From 2013*
Revenue	$ 6,582,536	$ 6,189,250	$ 7,203,874	$ 7,554,317	*5%*
Expenditures	$ 8,036,539	$ 8,491,970	$ 9,453,139	$ 9,105,307	*-4%*
Difference	**$ (1,454,003)**	**$ (2,302,720)**	**$ (2,249,265)**	**$ (1,550,990)**	

General Fund: Revenue from All Sources

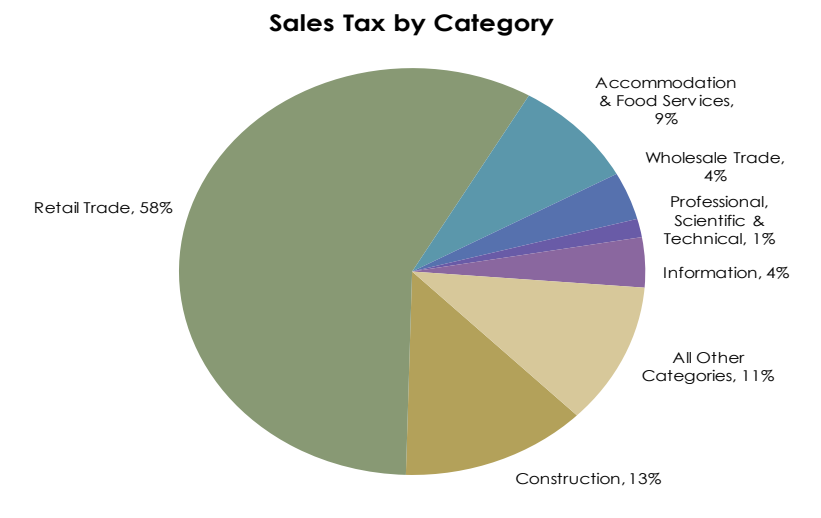
Revenue Source	Budget	Actual for the Quarter	Year-to-Date Actual	Year-to-Date % of Budget
Property Tax	$ 7,344,600	$ 457,771	$ 457,771	6%
Sales Tax	8,773,000	2,251,700	2,251,700	26%
Business & Occupation Tax	2,750,000	673,773	673,773	25%
Utility Taxes	4,613,000	1,312,363	1,312,363	28%
Other Taxes	215,300	22,826	22,826	11%
Total Taxes	*23,695,900*	*4,718,433*	*4,718,433*	*20%*
Building Permits	$ 2,200,000	$ 329,692	$ 329,692	15%
Business Licenses	265,000	83,692	83,692	32%
Other Licenses/Permits	143,900	18,065	18,065	13%
Total Licenses & Permits	*2,608,900*	*431,449*	*431,449*	*17%*
Federal Grants	$ -	$ 35,101	$ 35,101	0%
State & Local Grants	10,000	-	-	0%
Sales Tax Mitigation	560,000	143,658	143,658	26%
Criminal Justice (State)	42,800	10,892	10,892	25%
Liquor	322,400	92,730	92,730	29%
Misc Intergov'tl/Shared	25,000	-	-	0%
Total Intergovt'l/Shared	*960,200*	*282,380*	*282,380*	*29%*
Jail Services/Fees	1,367,000	298,988	298,988	22%
Municipal Court Fees	911,500	263,065	263,065	29%
Recreation/Pool Fees	2,105,000	721,013	721,013	34%
Engineering/Plan Check Fees	1,914,500	256,517	256,517	13%
Dispatch Services	480,000	77,846	77,846	16%
Other Fees & Charges	440,300	142,987	142,987	32%
Total Charges for Services	*7,218,300*	*1,760,417*	*1,760,417*	*24%*
Investment Interest	$ 168,100	$ 53,857	$ 53,857	32%
Rents & Leases	851,600	223,299	223,299	26%
Other Miscellaneous Revenue	58,000	9,982	9,982	17%
Total Miscellaneous Revenue	*1,077,700*	*287,138*	*287,138*	*27%*
Operating Transfers-In	$ 297,000	$ 74,500	$ 74,500	25%
Misc Other Sources	-	(0)	(0)	
Total from Other Sources	*297,000*	*74,500*	*74,500*	*25%*
Total General Fund Revenue	**$ 35,858,000**	**$ 7,554,317**	**$ 7,554,317**	**21%**

General Fund Revenue: Sales Tax Analysis

Retail sales tax is the largest source of revenue for the City's General Fund. First quarter actual collection for 2014 is $2,251,700 or 26% of the total amount budgeted for retail sales tax.

In comparison to 2013, the City received $183,870 or collected 9% more in retail sales tax in 2014.

The City of Issaquah receives the majority, 71%, of its retail sales tax from two categories: Retail Trade – 58% and Construction – 13% respectively.



Retail trade sales tax revenue for the year is 6% higher than the same period last year.

Construction-related sales tax for the year is 32% higher than the same period last year. This large change is due to the volatility of construction-related projects. Typically this revenue source represents one-time money.

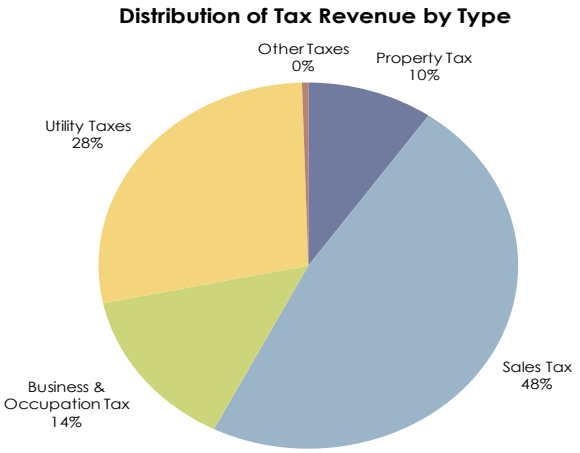
In 2011 the City received $746,544 in construction-related sales tax due largely to the construction of Swedish Hospital and increased residential development in the Issaquah Highlands.

While construction-related sales tax decreased in 2012 and 2013 compared to 2011 there is an increase in activity for 2014 reflecting the continuing improvement of the local economy and new construction activity in the City.

General Fund: Other Major Taxes

Property Tax

Property tax is the second largest source of revenue in the General Fund and primarily funds general governmental services. Taxes are due in two equal installments on April 30th and October 31st. Collections are remitted the month following collection to the appropriate taxing district by the County Treasurer.



Utility Taxes

Utility taxes are the third largest source of General Fund revenue, comprising 28% of all tax revenue received for the first quarter. Utility taxes are levied on the gross income derived from sales of utility services provided in the city. Such services include electricity, natural gas, water, garbage, telephone and cable television. Utility taxes are collected monthly.

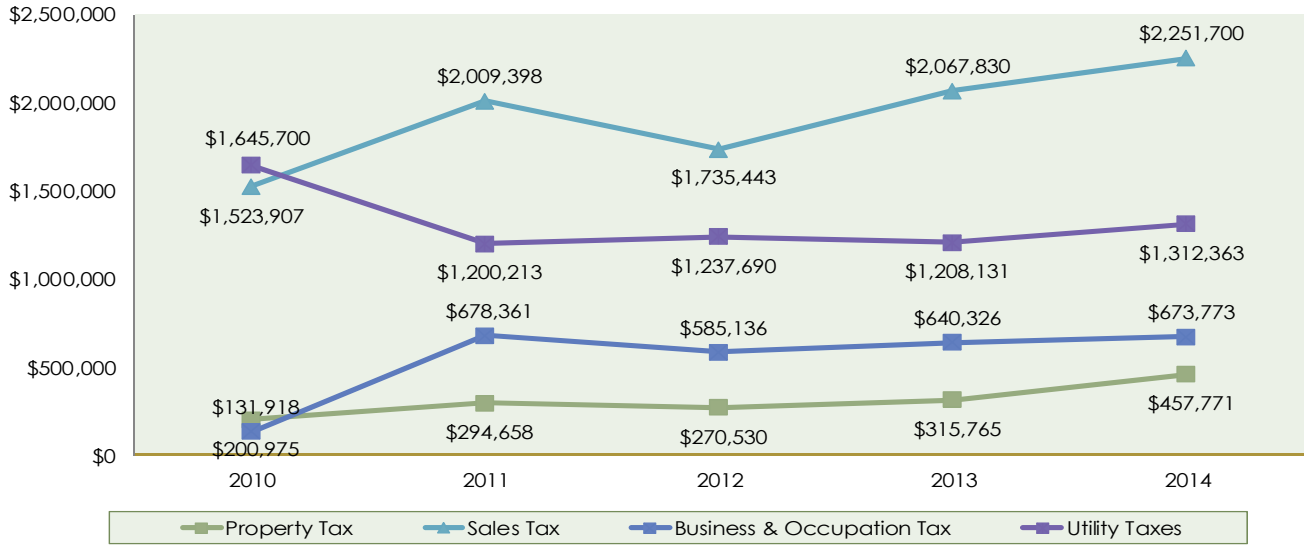
Business & Occupation Tax

Business and occupation (B&O) taxes are imposed and collected directly by the City upon all business activity within the City of Issaquah. B&O taxes are collected quarterly from businesses grossing more than $5,000 in a quarter or annually from business grossing more than $20,000 in the fiscal year. B&O tax categories are listed at right as well as the related percentage of total revenue.

B&O Tax Categories

Retailing	47%
All Other Businesses	27%
Manufacturing	12%
Wholesaling	11%
Retail Services	2%
Printing, Publishing, Extracting, Processing Hire	1%

Five-Year History of Actual Major Tax Revenue Received by Tax Type



General Fund: Expenditures

General Fund Departments - Actual Expenditures

First Quarter 2014

Department Name	Budget	Actual for the Quarter	Year-to-Date Actual	Year-to-Date % of Budget	
City Council	$ 84,980	$ 27,251	$ 27,251	32%	(a)
Municipal Court	$ 861,810	$ 207,390	$ 207,390	24%	
Executive	$ 799,010	$ 231,647	$ 231,647	29%	
Finance	$ 974,160	$ 277,754	$ 277,754	29%	
Legal	$ 425,230	$ 72,271	$ 72,271	17%	(b)
Support Svcs & Systems	$ 342,150	$ 99,553	$ 99,553	29%	
Human Resources	$ 363,130	$ 98,547	$ 98,547	27%	
Information Technology	$ 635,750	$ 162,683	$ 162,683	26%	
City Clerk	$ 289,490	$ 77,104	$ 77,104	27%	
Police	$ 9,380,180	$ 2,452,565	$ 2,452,565	26%	
Fire	$ 5,243,400	$ 1,318,080	$ 1,318,080	25%	
Communications	$ 274,660	$ 68,349	$ 68,349	25%	
Human Services	$ 594,660	$ 59,459	$ 59,459	10%	(c)
Development Services	$ 4,439,490	$ 1,217,850	$ 1,217,850	27%	
Economic Development	$ 686,770	$ 172,602	$ 172,602	25%	
Parks & Recreation	$ 7,720,910	$ 1,860,514	$ 1,860,514	24%	
Other General Govt'l	$ 2,738,135	$ 701,688	$ 701,688	26%	
Total GF Departments	**$ 35,853,915**	**$ 9,105,307**	**$ 9,105,307**	25%	

Department Expenditures: Explanation of Significant % of Budget Expended

(a) **City Council 32%** - On average, first quarter expenditures end up approximately 25% of budget. Beginning in 2014, insurance costs were distributed to individual departments.

These insurance costs as well as increased internet costs account for the 7% increased expenditure in the City Council department.

(b) **Legal 17% -** Typically, legal expenditures for the first quarter average 20% of budget.

(c) **Human Services 10%** - Generally first quarter Human Services expenditures equal approximately 12% of budget. Most of these expenditures take place in the second and fourth quarters of the budget year.

General Fund Expenditures - Four-Year Comparison

For the Quarter Ended March 31

Department	2011 Actual	2012 Actual	2013 Actual	2014 Actual	% Change From 2013
City Council	$ 18,766	$ 20,728	$ 19,372	$ 27,251	41% (a)
Municipal Court	$ 141,991	$ 159,661	$ 197,876	$ 207,390	5%
Executive	$ 216,654	$ 205,760	$ 287,873	$ 231,647	-20% (b)
Finance	$ 263,366	$ 256,420	$ 390,116	$ 277,754	-29% (c)
Legal	$ 91,587	$ 100,736	$ 95,499	$ 72,271	-24% (d)
Support Svcs & Systems	$ -	$ -	$ -	$ 99,553	n/a
Human Resources	$ 194,211	$ 138,710	$ 98,797	$ 98,547	0%
Information Technology	$ 227,306	$ 253,250	$ 179,132	$ 162,683	-9%
City Clerk	$ 76,977	$ 87,251	$ 104,348	$ 77,104	-26% (e)
Police	$ 2,021,728	$ 2,090,314	$ 2,316,382	$ 2,452,565	6%
Fire	$ 1,153,888	$ 1,176,783	$ 1,264,115	$ 1,318,080	4%
Communications	$ -	$ -	$ 51,116	$ 68,349	34% (f)
Human Services	$ 52,858	$ 48,523	$ 62,822	$ 59,459	-5%
Development Services	$ 866,848	$ 950,134	$ 1,359,391	$ 1,217,850	-10%
Economic Development	$ -	$ -	$ 132,959	$ 172,602	30% (g)
Parks & Recreation	$ 1,609,366	$ 1,841,707	$ 1,788,376	$ 1,860,514	4%
Other General Govt'l	$ 1,100,994	$ 1,161,992	$ 1,104,966	$ 701,688	-36% (h)
Total GF Departments	**$ 8,036,539**	**$ 8,491,970**	**$ 9,453,139**	**$ 9,105,307**	**-4%**

Department Expenditures: Explanation of Significant Expenditure Variance

(a) **City Council +41%** - Beginning in 2014, insurance costs were distributed to individual departments. These insurance costs as well as increased internet costs account for the 7% increased expenditure.

(b) **Executive -20%** - Reduction in staff level assigned.

(c) **Finance -29%** - 2013 expenditures included a benefit pay-out to a retired employee.

(d) **Legal -24%** - Costs have decreased as a result of reduced consultation needs.

(e) **City Clerk -26%** - Reduction due to some costs being reallocated to Support Svcs & Systems (formerly Shared Services).

(f) **Communications +34%** - Costs have increased as a result of being fully staffed.

(g) **Economic Development +30%** - Costs have increased as a result of being fully staffed.

(h) **Other General Govt'l -36%** - Decrease is mainly comprised in a reduction in insurance costs which were allocated directly to departmental budgets.

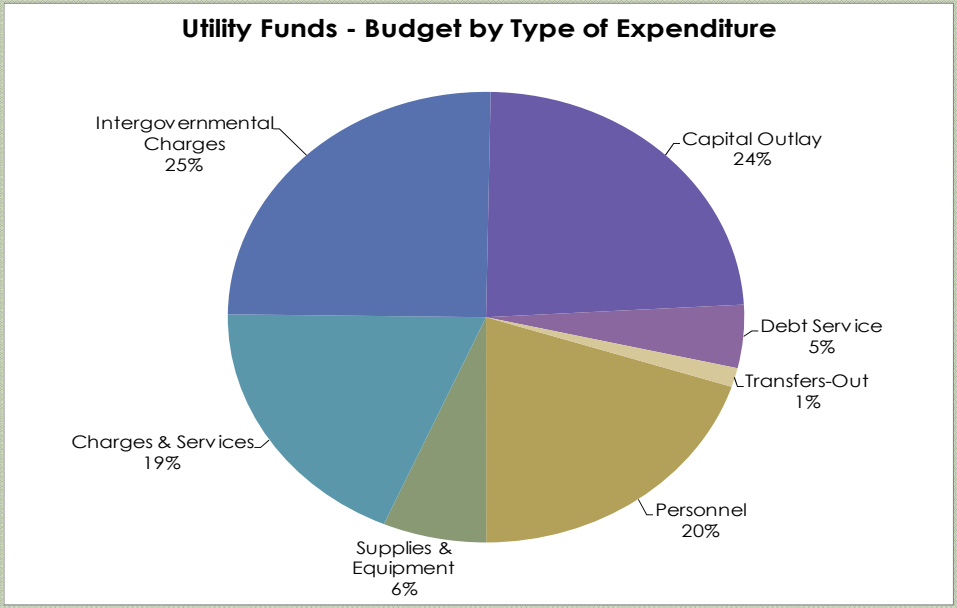
Utility Funds Performance

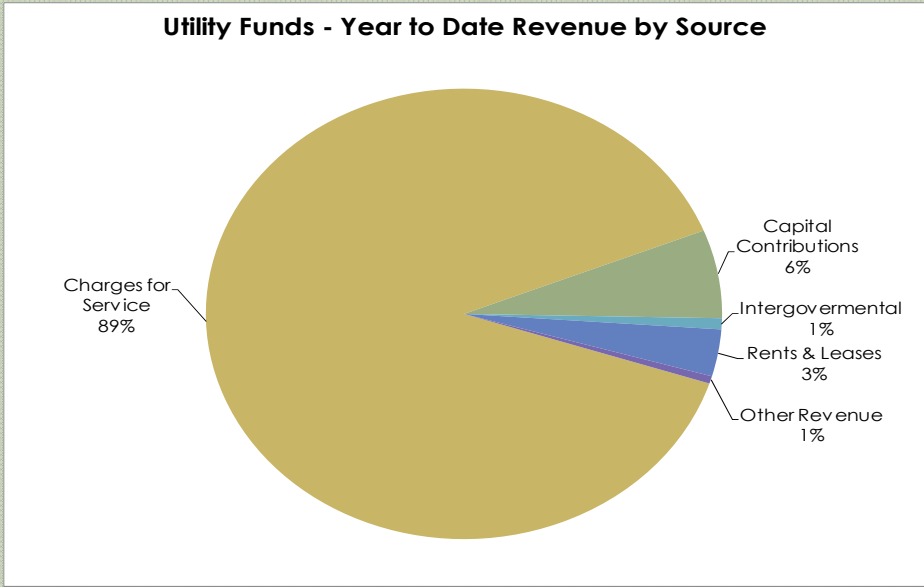
Beginning in 2014, the City of Issaquah's utility funds will be presented similarly to the City's annual financial statements. Operating, Debt Service (when applicable) and Capital Project funds for each utility - Water, Sewer and Stormwater - have been combined to present the "whole" picture for each utility.

Expenditures

Expenditures in the utility funds are comprised of six major components: Personnel, Supplies & Equipment, Charges & Services, Intergovernmental Charges, Debt Service and Operating Transfers-out. The distribution of these costs over the three utilities are displayed at left.

At the end of the first quarter, utility expenditures are averaging 3% less than budgeted.





Revenue

The majority (89%) of utility revenue is earned through charges for services with the other 11% comprised primarily of capital contributions, grants, leases and other revenue such as transfers-in from other funds.

As of March 31, utility revenue as a whole is at expected budget levels. More information on the performance of each specific utility can be found in the pages that follow.

Utility Funds: Actual Expenditures & Revenues

Four-Year Comparison Through First Quarter

WATER UTILITY

	2011	2012	2013	2014
Beginning Balance	**$ 4,191,129**	**$ 4,274,401**	**$ 6,753,756**	**$ 8,038,135**
Operating Revenues				
Charges for Service	$ 945,198	$ 1,063,693	$ 1,273,127	$ 1,226,053
Other Revenue	200	150	300	100
Total Operating Revenues	$ 945,398	$ 1,063,843	$ 1,273,427	$ 1,226,153
Operating Expenses				
Maintenance & Operations	$ 1,048,236	$ 1,330,771	$ 1,329,427	$ 1,228,350
Total Operating Expenses	$ 1,048,236	$ 1,330,771	$ 1,329,427	$ 1,228,350
Operating Income (Loss)	***(102,838)***	***(266,929)***	***(56,000)***	***(2,197)***
Non-Operating Revenues				
Rents & Leases	$ 153,509	$ 157,300	$ 173,500	$ 153,500
Capital Contributions	350,159	8,052	18,152	261,406
Debt Service	4,954	-	-	-
Other Revenue	410	3,125	113	14,294
Total Non-Operating Revenues	$ 509,032	$ 168,477	$ 191,765	$ 429,200
Non-Operating Expenses				
Capital Outlay	$ 23,176	$ 1,695	$ 57,380	$ 100,219
Debt Service				
Interest	6,750	-	299	300
Transfers-Out	36,250	36,250	40,000	33,050
Total Non-Operating Expenses	$ 66,176	$ 37,945	$ 97,679	$ 133,569
Ending Balance	**$ 4,531,147**	**$ 4,138,004**	**$ 6,791,842**	**$ 8,331,569**

SEWER UTILITY

	2011	2012	2013	2014
Beginning Balance	**$ 3,908,103**	**$ 4,177,881**	**$ 4,478,636**	**$ 4,900,425**
Operating Revenues				
Charges for Service	$ 1,469,627	$ 1,571,401	$ 1,655,829	$ 1,705,779
Other Revenue	180	-	-	-
Total Operating Revenues	$ 1,469,807	$ 1,571,401	$ 1,655,829	$ 1,705,779
Operating Expenses				
Maintenance & Operations	$ 1,628,669	$ 1,617,706	$ 1,715,015	$ 1,662,782
Total Operating Expenses	$ 1,628,669	$ 1,617,706	$ 1,715,015	$ 1,662,782
Operating Income (Loss)	***(158,862)***	***(46,304)***	***(59,187)***	***42,997***
Non-Operating Revenues				
Other Revenue	$ 274	$ -	$ 3,500	$ 3,248
Capital Contributions	11,666	8,664	13,030	20,440
Total Non-Operating Revenues	$ 11,940	$ 8,664	$ 16,530	$ 23,687
Non-Operating Expenses				
Capital Outlay	$ 29,553	$ -	$ 45,494	$ 59,909
Transfers-Out	22,500	22,500	23,750	13,900
Total Non-Operating Expenses	$ 52,053	$ 22,500	$ 69,244	$ 73,809
Ending Balance	**$ 3,709,127**	**$ 4,117,741**	**$ 4,366,735**	**$ 4,893,301**

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. Actual revenue and expenditures directly related to KC Metro are shown below.

KC Metro Sewer	2011 Actual	2012 Actual	2013 Actual	2014 Actual	% Change from 2013
Operating Expenses	$ 1,221,814	$ 1,183,003	$ 1,279,980	$ 1,338,522	*5%*
% of All Sewer Operating Expenses	75%	73%	75%	80%	
Operating Revenue	$ 1,044,006	$ 1,124,977	$ 1,198,431	$ 1,243,413	*4%*
% of All Sewer Operating Revenue	71%	72%	72%	73%	

There have been no stormwater rate increases since 2008

STORMWATER UTILITY

	2011	2012	2013	2014
Beginning Balance	**$ 2,421,361**	**$ 2,718,667**	**$ 2,798,668**	**$ 2,145,707**
Operating Revenues				
Charges for Service	$ 1,101,217	$ 1,107,527	$ 1,109,170	$ 1,129,386
Intergovernmental	-	-	-	15,628
Total Operating Revenues	$ 1,101,217	$ 1,107,527	$ 1,109,170	$ 1,145,015
Operating Expenses				
Maintenance & Operations	$ 741,202	$ 773,843	$ 765,699	$ 720,504
Total Operating Expenses	$ 741,202	$ 773,843	$ 765,699	$ 720,504
Operating Income (Loss)	***360,015***	***333,684***	***343,470***	***424,511***
Non-Operating Revenues				
Intergovernmental	$ 290,728	$ 346,921	$ 257,417	$ 20,502
Capital Contributions	5,715	1,578	2,532	7,890
Other Revenue	12,853	2,813	7,009	6,748
Total Non-Operating Revenues	$ 309,295	$ 351,311	$ 266,958	$ 35,140
Non-Operating Expenses				
Capital Outlay	$ 77,740	$ 250,459	$ 417,573	$ 84,378
Debt Service				
Interest	6,188	-	-	-
Transfers-Out	35,250	35,250	37,750	30,800
Total Non-Operating Expenses	$ 119,178	$ 285,709	$ 455,323	$ 115,178
Ending Balance	**$ 2,971,493**	**$ 3,117,954**	**$ 2,953,773**	**$ 2,490,180**

Economic Environment Update

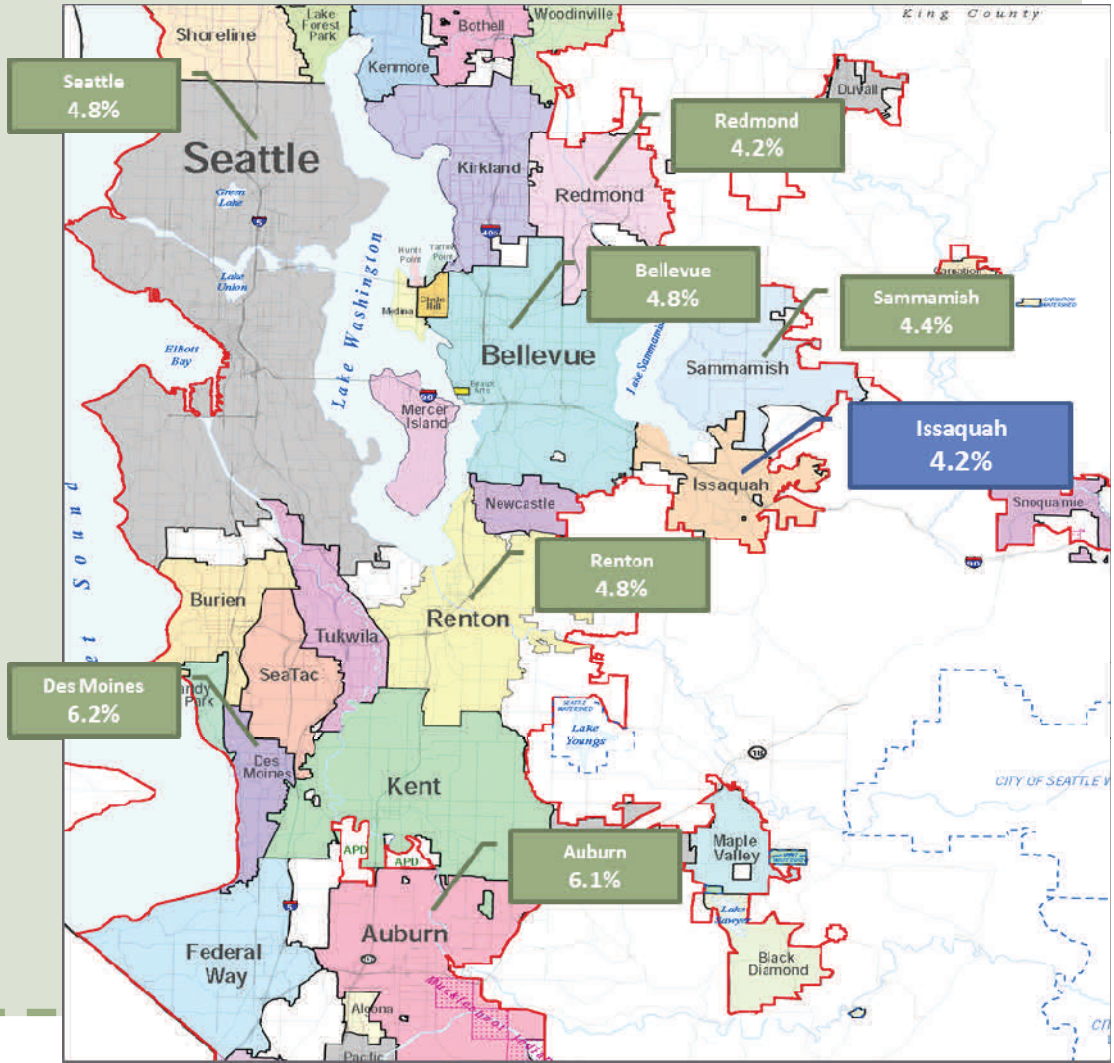
Economy in Brief

* The initial estimate of GDP growth for the first quarter of 2014 was a weak 0.1% at an annual rate.
* Gasoline prices have increased for nine consecutive weeks, rising from $3.29 (regular, all formulations) in early February to $3.60 per gallon for the week ending April 7th.
* U.S. manufacturing activity has increased for ten months through March.
* Washington real per capita income slightly exceeds the national average.
* Single-family home construction has been weaker than expected but multi-family construction has been stronger.
* Regional home prices continue to rise.
* March 2014 consumer confidence rose to 82.3, up 4.2 points from December and 9.2 points from March of 2013.
* Inflation in the Seattle area remains low and in line with national trends measuring 1.2% higher than in the previous February compared to the 1.1% increase for the U.S. city average.

	March 2013	March 2014
United States		
Unemployment Rate	7.5%	6.7%
Washington		
Unemployment Rate	7.1%	6.3%
Resident Labor Force	3,468,000	3,468,700
Unemployed	247,100	219,700
Seattle/Bellevue/Everett		
Unemployment Rate	5.4%	5.2%
Resident Labor Force	1,523,300	1,553,600
Unemployed	81,600	80,300

Washington Employment Security Department

Local Unemployment Rates - March 2014 (US Bureau of Labor Statistics)



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Washington and the Region

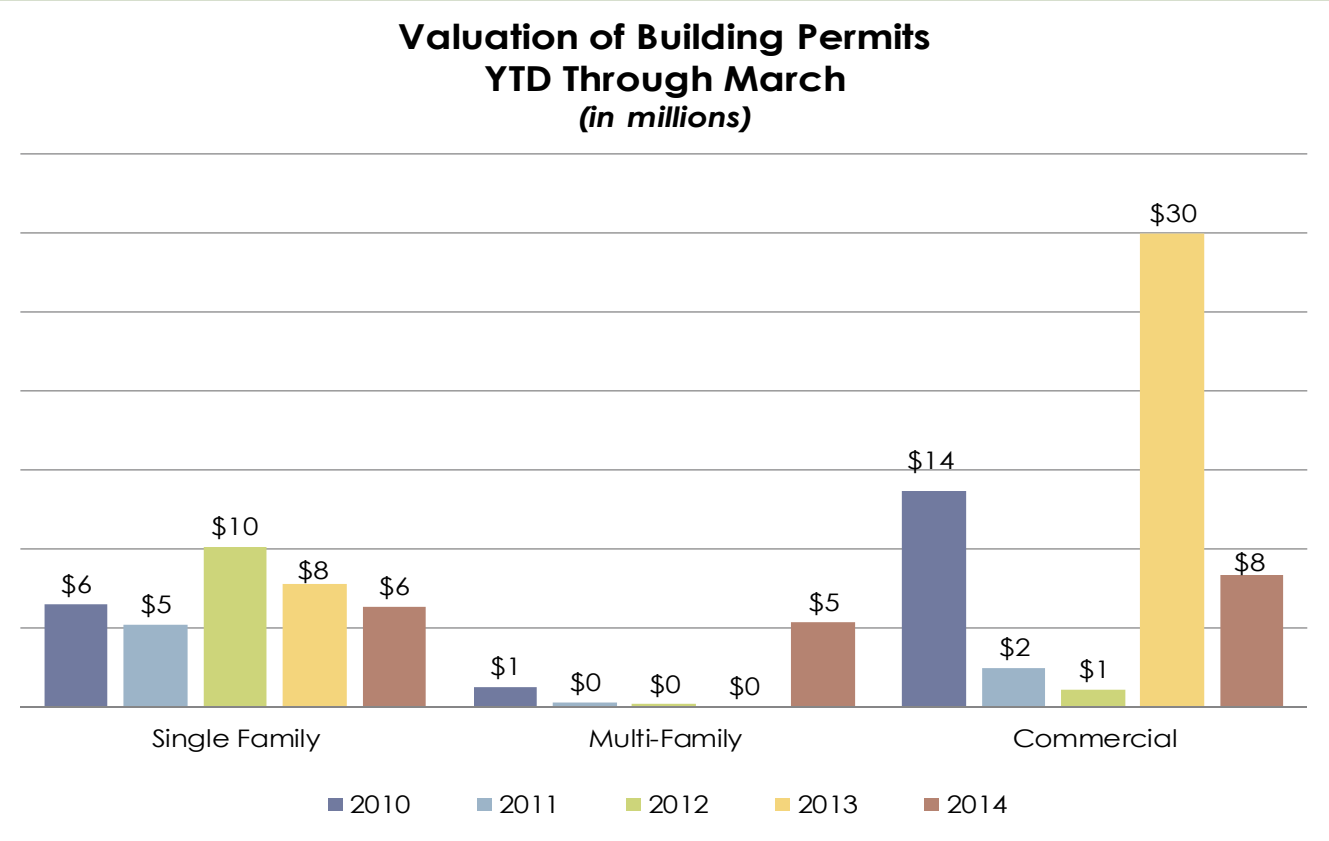
Estimates (not seasonally adjusted) for the first quarter of 2014 indicate an increase in employment of 13,000 for the state. Over the three month time period, the private sector added 13,100 jobs while the public sector lost an estimated 100 jobs.

The number of housing units authorized by building permits in March was 31,900 units (SAAR) compared to the forecast of 31,800. Once again single-family permits were disappointing but the shortfall was made up by stronger than expected multi-family activity.

Year-to-Date Building Permit Activity in Issaquah

Permit Type	2010	2011	2012	2013	2014
Single Family:					
New	21	19	35	27	23
Alterations	18	15	13	11	13
Multi-family:					
New	0	0	0	0	5
Alterations	18	8	3	0	10
Commercial:					
New	3	0	2	9	3
Alterations	25	28	21	39	30

Single family permits averaged 17,100 units in the first quarter compared to the forecast of



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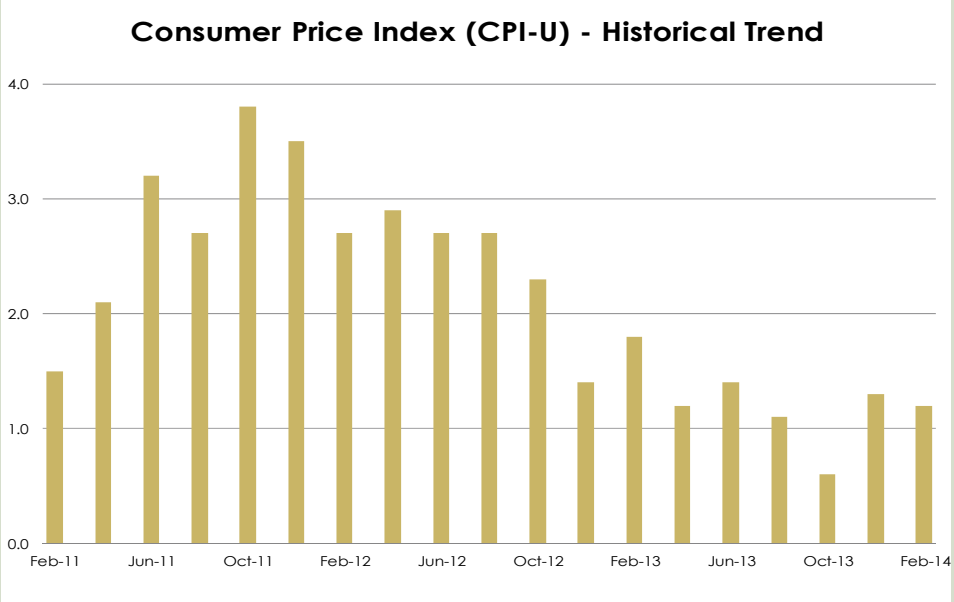
(Continued from page 14)

18,700 units but multi-family units averaged 14,100 units compared to the forecast of 12,600 units. Overall, the quarter was very close at 31,200 units compared to the forecast of 31,400 units.

Locally, single family permitting followed a similar trend with permits for new single family dropping 15% from 2013 first quarter levels and 34% below 2012's high. New multi-family permitting saw the first activity in the first quarter since first quarter of 2007.

U.S. Bureau of Labor Statistics - Rate of Inflation

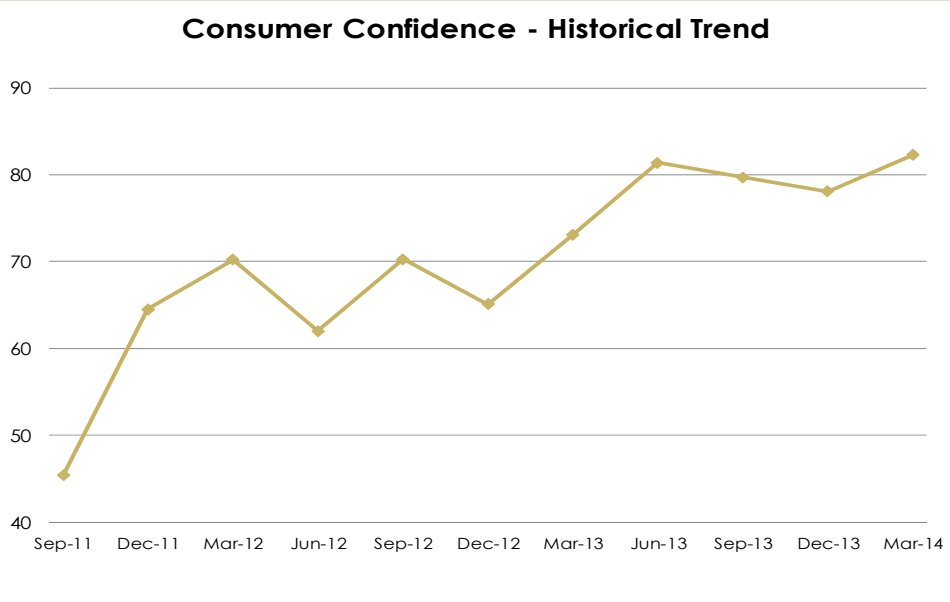


Regional home prices continue to rise. According to the S&P/Case-Shiller Home Price Indices, seasonally adjusted Seattle area home prices have risen in each of the last 24 months and, as of February 2014, are 12.8% higher than in the previous February. Even with the recent gains, Seattle area home prices are still 14.1% lower than their 2007 peak.

Risks to the local economy are generally from factors outside the state, include:

* A weak Chinese economy;
* Possible disruptions to the housing recovery - primarily affordability; and
* Uncertainty about the European economy related to weak growth, sovereign debt as well as the Ukrainian conflict.

Conference Board Consumer Confidence Index



(Sources: State of Washington Economic & Revenue Forecast Council, March 27, 2014 Presentation, April 2014 Report and May 2014 Report)