

2014 Year-End Financial Status Report

AT A GLANCE:

- The City continues to see modest growth as the economy continues to rebound.
- Water and Stormwater Utilities capital revenue/ expenditure budget to actual distorts overall utility performance.
- We will continue to monitor development fees associated with new projects to determine the impact on the General Fund budget.

INSIDE:

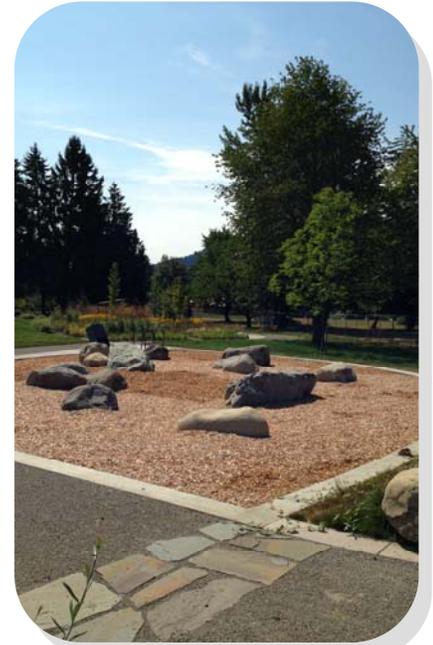
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Introduction

The Financial Status Report provides a summary budget-to-actual comparison of revenues and expenditures for the General Fund and Utility Funds for the year ended December 31, 2014.

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

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



Confluence Park

Performance at a Glance

	Year-to-Date Performance	Compared to Budget
General Fund Expenditure vs. Budget	Positive	-1.5%
General Fund Revenue vs. Budget	Warning	-2.3%
Tax Revenue Performance	Warning	-5.7%
Utility Funds Expenditures vs. Budget	Positive	-21.4%
Utility Funds Revenues vs. Budget	Warning	-35.7%

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: 2014 Performance

Revenue Highlights

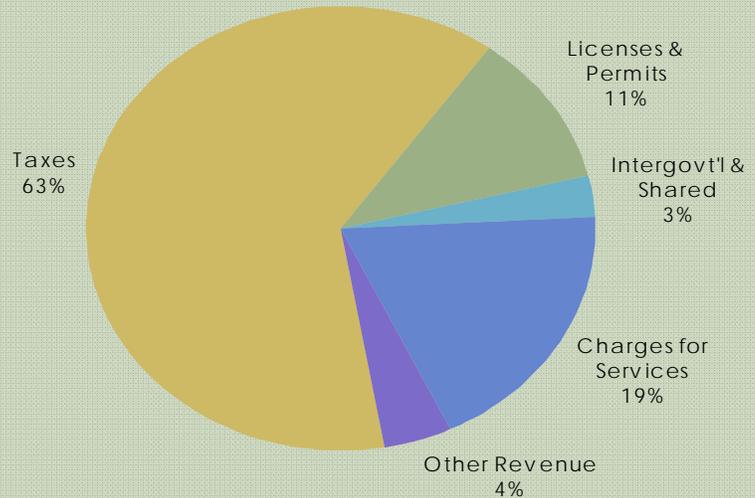
The primary revenue sources for the General Fund are taxes, charges for services and licenses and permits. Together, these revenue sources comprise about 93% of the total General Fund revenue.

At December 31, total general fund revenue finished at \$36,812,405, 98% of the 2014 budgeted amount, and 8% higher than 2013.

Most of the major revenue sources showed gains in 2014 over 2013, with development fees and court fine/fees showing significant gains; 78% and 20% respectively.

Only two of the major sources reported less revenue in 2014 - utility taxes and recreation fees.

General Fund Actual Revenue by Source



Taxes

Sales Tax

Sales tax is the largest source of tax revenue for the City and is highly reliant on the local economy. 2014 saw a modest gain in sales tax over 2013 largely due to retail trade. Sales tax is explored further on *page 7*.

Property Tax

Property tax represents the second largest source of tax revenue for the City and showed an increase of 7% for 2014 over the 2013 fiscal year. The increase in property tax received in 2014 compared to 2013 reflects new construction added to the City's tax rolls in 2013, as well as the 1% increase in revenue authorized by the City Council.

Utility Taxes

Utility taxes are the third largest source of General Fund revenue, comprising 12% of all general fund revenue received for 2014. Utility taxes are levied on the gross income derived from sales of electricity, natural gas, water, garbage, telephone and cable television services provided in the city. Utility taxes are

General Fund Actual Revenue Received Through December 31



General Fund Major Revenue Sources - Actual Revenue Received

Through the Year Ended December 31

Revenue Source	2011 Actual	2012 Actual	2013 Actual	2014 Actual	% Change From 2013
Sales Tax	\$ 8,044,060	\$ 7,264,225	\$ 8,291,908	\$ 8,356,668	1%
Property Tax	6,723,762	6,865,806	7,050,374	7,572,353	7%
Utility Taxes	4,218,572	4,493,787	4,445,759	4,358,715	-2%
Development Fees	1,399,834	1,837,857	2,159,870	3,852,253	78%
B&O Tax	2,569,836	2,281,628	2,526,199	2,592,709	3%
Recreation Fees	1,907,146	2,006,425	2,164,188	2,121,948	-2%
Jail Services	1,664,787	1,498,083	1,499,729	1,664,890	11%
Court Fines/Fees	1,175,097	1,104,376	950,654	1,139,388	20%

collected monthly.

The 2% dip in utility taxes for 2014 from 2013 reflects the end of settlement payments received for retroactive utility taxes on cable services. Those payments ended in September of 2013.

Business & Occupation Tax

Business and occupation (B&O) taxes are imposed

on all business activity occurring within the Issaquah city limits. B&O taxes are collected quarterly from businesses grossing more than \$5,000 in a quarter or more than \$20,000 annually in the fiscal year. In 2015 those income thresholds will increase to \$25,000 and \$100,000 respectively.

The 3% increase in 2014 B&O revenue over 2013 can be attributed to the first full year

of activity of several large businesses in the Issaquah Highlands.

Other Major Revenue

Development Fees

Development fee revenue shows a marked increase in 2014 compared to 2013 primarily as a result of increased activities and fees. Much of this increase reflects a change in how and when

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



General Fund: 2014 Performance (cont.)

some review fees are paid as well as revenue previously included in the utility and engineering funds now being included in the General Fund due to a reorganization of City departments.

Also, beginning in 2014, some developers have chosen to pay expedited review fees based on a time and materials basis.

While this appears as an increase to building permit revenue, it is actually a direct cost recovery of the contracted service expenditures the City makes in order to provide the expedited permit review.

Recreation Fees

Recreation fees include the fees paid to participate in Parks Department recreation and aquatics programs. The 2% decrease in fees received in 2014 compared to 2013 was caused by the closure of the Julius Boehm pool beginning in late November 2014 for

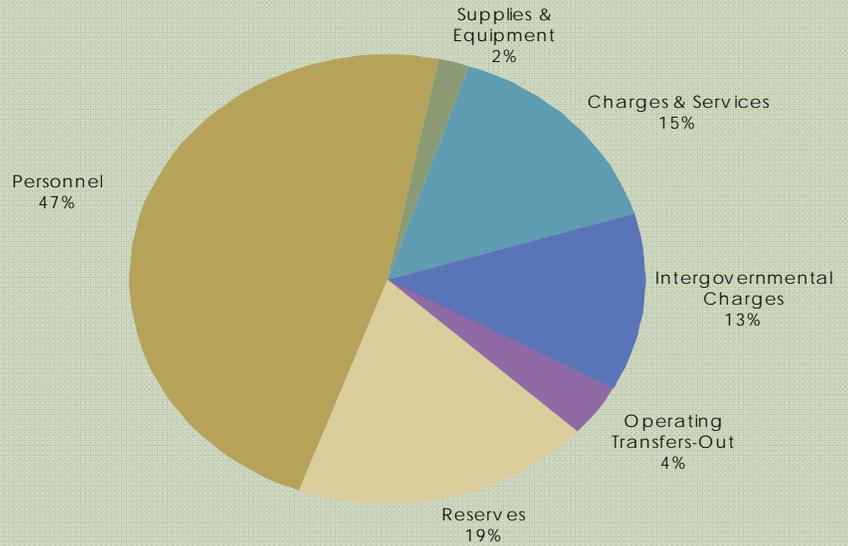
renovation. The pool is expected to reopen late August 2015.

Jail Services

Jail Services 2014 revenue increased 11% over revenue received in 2013, bringing it back to 2011 levels.

The 2014 revenue increase can be tied to the nearly double usage of available beds in the jail, particularly in the fourth quarter.

General Fund Actual Expenditures by Type



Court Fines & Fees

Court Fines/Fees revenue is up 20% over 2013 revenue. The increase is mainly attributed to an increase in photo enforcement citations.

Expenditures

Expenditures ended the year at \$36,192,274; 96% of the 2014 budgeted amount. This figure is 4% greater than fiscal year 2013

General Fund - Actual Expenditures & Revenue

Through the Year Ended December 31

General Fund	2011 Actual	2012 Actual	2013 Actual	2014 Actual	% Change From 2013
Revenue	\$ 31,359,667	\$ 31,606,256	\$ 33,966,417	\$ 36,812,405	8%
Expenditures	<u>29,877,899</u>	<u>31,785,692</u>	<u>34,830,550</u>	<u>36,192,274</u>	4%
Difference	\$ 1,481,768	\$ (179,435)	\$ (864,132)	\$ 620,131	

General Fund Departments - Actual Expenditures

Year End 2014

Department Name	Budget	Actual for the 4th Quarter	Year-to-Date Actual	Year-to-Date % of Budget
City Council	\$ 84,980	\$ 17,210	\$ 81,199	96%
Municipal Court	861,810	230,092	840,782	98%
Executive	799,010	204,035	752,289	94%
Finance	974,160	233,239	898,573	92%
Legal	525,230	179,533	526,427	100%
Support Svcs & Systems	349,650	91,992	349,766	100%
Human Resources	363,130	96,255	349,464	96%
Information Technology	635,750	157,523	602,369	95%
City Clerk	289,490	74,876	276,368	95%
Police	9,380,180	2,336,841	9,243,608	99%
Fire	5,243,400	1,321,352	5,275,592	101%
Communications	274,660	72,905	262,905	96%
Human Services	719,660	272,111	664,890	92%
Development Services	6,039,490	1,500,758	5,466,926	91%
Economic Development	691,770	168,500	660,895	96%
Parks & Recreation	7,773,410	1,931,203	7,423,379	95%
Other General Govt'l	<u>2,738,135</u>	<u>696,918</u>	<u>2,516,840</u>	92%
Total GF Departments	\$ 37,743,915	\$ 9,585,342	\$ 36,192,274	96%

and 1% less than the four-year average of 97%.

A snapshot of 2014 expenditures by department is presented above. A more detailed analysis by

department can be found on *page nine*.

2014 is the first year since 2011 where the General Fund experienced a surplus of revenue over expenditures.

Ending Fund Balance

Ending fund reserves increased \$620,132 in 2014, ending the year with a 23.1% expenditure coverage ratio.

General Fund Actual Fund Balance Performance

	2010	2011	2012	2013	2014
Beginning Fund Balance	\$ 5,836,682	\$ 7,293,775	\$ 8,775,545	\$ 8,596,109	\$ 7,731,976
Revenues	\$ 30,552,535	\$ 31,359,667	\$ 31,606,256	\$ 33,966,417	\$ 36,812,405
Expenditures	<u>29,095,442</u>	<u>29,877,897</u>	<u>31,785,692</u>	<u>34,830,550</u>	<u>36,192,274</u>
Difference	\$ 1,457,093	\$ 1,481,770	\$ (179,436)	\$ (864,133)	\$ 620,132
Ending Fund Balance	\$ 7,293,775	\$ 8,775,545	\$ 8,596,109	\$ 7,731,976	\$ 8,352,108

General Fund: Revenue from All Sources

Revenue Source	Budget	Actual for the 4th Quarter	Year-to-Date Actual	Year-to-Date % of Budget
Property Tax	\$ 7,344,600	\$ 3,473,368	\$ 7,572,353	103%
Sales Tax	8,773,000	2,188,927	8,356,668	95%
Business & Occupation Tax	2,750,000	713,799	2,592,709	94%
Utility Taxes	4,613,000	980,037	4,358,715	94%
Other Taxes	215,300	54,341	181,429	84%
<i>Total Taxes</i>	<i>23,695,900</i>	<i>7,410,473</i>	<i>23,061,874</i>	<i>97%</i>
Building/Development Fees	\$ 3,348,000	\$ 1,057,182	\$ 3,852,253	115%
Business Licenses	265,000	72,213	277,948	105%
Other Licenses/Permits	95,900	76,053	90,095	94%
<i>Total Licenses & Permits</i>	<i>3,708,900</i>	<i>1,205,448</i>	<i>4,220,295</i>	<i>114%</i>
Federal Grants	\$ 125,000	\$ 45,821	\$ 129,059	103%
State & Local Grants	10,000	-	-	0%
Sales Tax Mitigation	560,000	143,590	572,385	102%
Criminal Justice (State)	42,800	11,358	44,676	104%
Liquor	322,400	87,037	345,861	107%
Misc Intergov'tl/Shared	25,000	6,927	6,927	28% (a)
<i>Total Intergov'tl/Shared</i>	<i>1,085,200</i>	<i>294,733</i>	<i>1,098,907</i>	<i>101%</i>
Jail Services/Fees	1,367,000	559,501	1,664,890	122%
Court Fees & Fines	911,500	381,158	1,139,388	125%
Recreation/Pool Fees	2,105,000	453,411	2,121,948	101%
Development Fees	2,414,500	227,327	1,004,164	42%
Dispatch Services	480,000	172,568	523,464	109%
Other Fees & Charges	440,300	93,841	449,396	102%
<i>Total Charges for Services</i>	<i>7,718,300</i>	<i>1,887,805</i>	<i>6,903,250</i>	<i>89%</i>
Investment Interest	\$ 168,100	\$ 19,530	\$ 146,908	87%
Rents & Leases	1,011,600	129,814	1,041,203	103%
Other Miscellaneous Revenue	58,000	13,859	87,777	151%
<i>Total Miscellaneous Revenue</i>	<i>1,237,700</i>	<i>163,203</i>	<i>1,275,888</i>	<i>103%</i>
Operating Transfers-In	\$ 297,000	\$ 74,500	\$ 298,000	100%
Misc Other Sources	-	418	18,959	
<i>Total from Other Sources</i>	<i>297,000</i>	<i>74,918</i>	<i>316,959</i>	<i>107%</i>
Total General Fund Revenue	\$ 37,743,000	\$ 11,036,580	\$ 36,877,173	98%

(a) The City had budgeted for an on-going grant that was discontinued in 2014..

General Fund Revenue: Sales Tax Analysis

Overview

Retail sales and use tax is the largest source of revenue for the City's General Fund. Actual revenue collected through December 31, 2014 is \$8,356,668 or 95% of the total amount budgeted for retail sales tax. In comparison to 2013, the City received \$64,760 or 1% less in retail sales tax in 2014.

Major Tax Category Performance

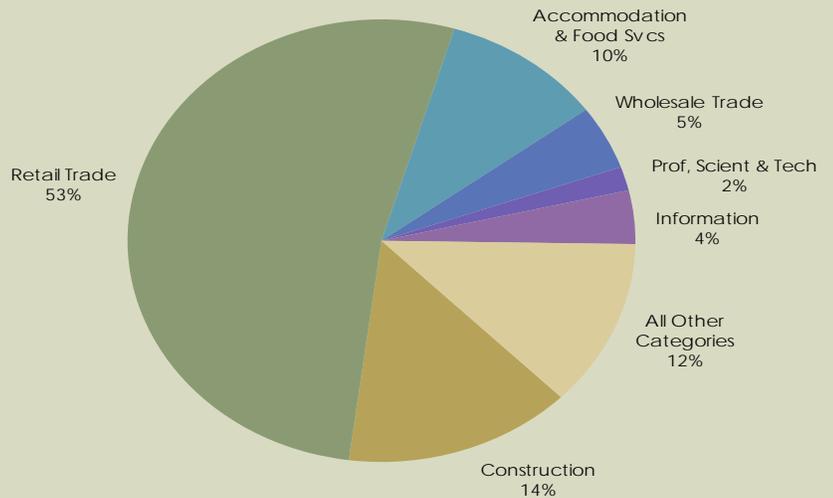
The City of Issaquah receives the majority of its retail sales tax, 67%, from two categories: Retail Trade at 53% and Construction at 14%. Both Retail Trade and Construction-related sales tax for 2014 is about the same as that received in 2013.

In 2011 the City received \$2,361,661 in construction-related sales taxes due largely to the construction of Swedish Hospital and increased residential development in the Issaquah Highlands.

Sales tax related to construction remains highly volatile and dependent on the local economy as illustrated in the chart at right where 2012, 2013 and 2014 were considerably less compared to the 2011 high-water mark.

While construction-related sales tax took a small dip in 2014 compared to 2013, higher than budgeted development revenue in 2014 leads to an expectation of a surge in construction in 2015.

Sales Tax Categories



Retail Trade
Year-to-Date Received Through December 31



Construction
Year-to-Date Received Through December 31



General Fund: Department Expenditures

Overall actual 2014 expenditures for the General Fund departments ended the year at or under budget.

2014 actual department expenditures that ended significantly higher or lower than 2013 expenditures are illustrated below and explained on the next page.

General Fund Expenditures - Four-Year Comparison

Through the Year Ended December 31

Department	2011 Actual	2012 Actual	2013 Actual	2014 Actual	% Change From 2013
City Council	\$ 69,933	\$ 75,589	\$ 73,419	\$ 81,199	11% (a)
Municipal Court	567,456	683,838	793,445	840,782	6%
Executive	878,086	988,421	1,020,937	752,289	-26% (b)
Finance	861,443	914,987	1,051,033	898,573	-15% (c)
Legal	443,138	509,628	568,163	526,427	-7%
Support Svcs & Systems	-	-	-	349,766	n/a
Human Resources	584,229	453,050	354,547	349,464	-1%
Information Technology	904,276	949,042	651,291	602,369	-8% (d)
City Clerk	288,007	305,465	347,316	276,368	-20% (e)
Police	7,401,864	7,806,149	8,429,513	9,243,608	10% (f)
Fire	4,609,986	4,707,133	5,056,459	5,275,592	4%
Communications	-	-	233,877	262,905	12% (g)
Human Services	437,109	443,841	478,634	664,890	39% (h)
Development Services	3,071,196	3,301,517	5,201,690	5,466,926	5%
Economic Development	-	209,825	537,684	660,895	23% (i)
Parks & Recreation	6,490,289	6,855,732	7,073,155	7,423,379	5%
Other General Gov't'l	3,270,889	3,581,476	2,959,389	2,516,840	-15% (j)
Total GF Departments	\$ 29,877,899	\$ 31,785,692	\$ 34,830,550	\$ 36,192,274	4%

General Fund: Department Expenditures (cont.)

Explanation of Significant % Variance of Budget Expended

- (a) **City Council +11%** - Beginning in 2014, insurance costs were distributed to individual departments. These insurance costs, as well as increased internet costs account for the increase in expenditures over 2013.
- (b) **Executive -26%** - The decrease in 2014 expenditures compared to 2013 includes:
- A reduction in staff level assigned in 2014;
 - The end of a benefit pay-out to an employee who retired in 2013; and
 - The vacancy in Deputy City Administrator position for the first half of 2014.
- (c) **Finance -15%** - 2013 expenditures included a benefit pay-out to a retired employee.
- (d) **City Clerk -20%** - The 2014 decrease is due to some expenditures being reallocated to the Support Service & Systems (formerly Shared Services) Department to reflect their absorption of duties previously assigned to the City Clerk's Office.
- (e) **Police +10%** - The 10% increase in 2014 expenditures over 2013 included a benefit pay-out to a retired employee and the addition of one police officer with the 2014 budget.
- (f) **Communications +12%** - 2014 costs increased as a result of being fully staffed for the entire budget year.
- (g) **Human Services +39%** - The 2014 budget for Human Services was increased by 41% over the 2013 budget.
- The majority of that budget and expenditure increase is due to the City receiving a grant from the Drug Free Community Coalition which addresses the City Council Goal for a healthy community strategy. This grant has been continued in the 2015 budget.
- (c) **Economic Development +23%** - Costs have increased as a result of being fully staffed as well as one-time funding of professional services related to developing a Tourism Business Plan.
- (d) **Other General Gov't -15%** - Most of the decrease in expenditures from 2014 to 2013 is from insurance costs being distributed to the appropriate departmental budgets.
- Also included in 2013 expenditures was a large, one time prior-period adjustment resulting from the 2013 Audit of the City's financial statements. The adjustment corrected 2012 expenses previously accounted for in 2013.

Utility Funds: 2014 Highlights

Beginning in 2014, the City of Issaquah’s utility funds have been presented similarly to the City’s annual financial statements.

In order to present the “whole” picture of Utility revenue and expenses, Operating, Debt Service (when applicable) and Capital Project funds for each utility - Water, Sewer and Stormwater - have been combined.

Expenses

Expenses in the utility funds are segregated into four major categories: Maintenance & Operations Costs, Capital Outlay, Debt Service and Transfers to other non-utility funds. The distribution of these expense categories over the three utilities is displayed above.

Operation expenses include: Personnel, Supplies & Equipment, Charges & Services, and Intergovernmental Charges. These detailed expenditure components are presented in the graph below.

At year end, all utility expenses ended lower

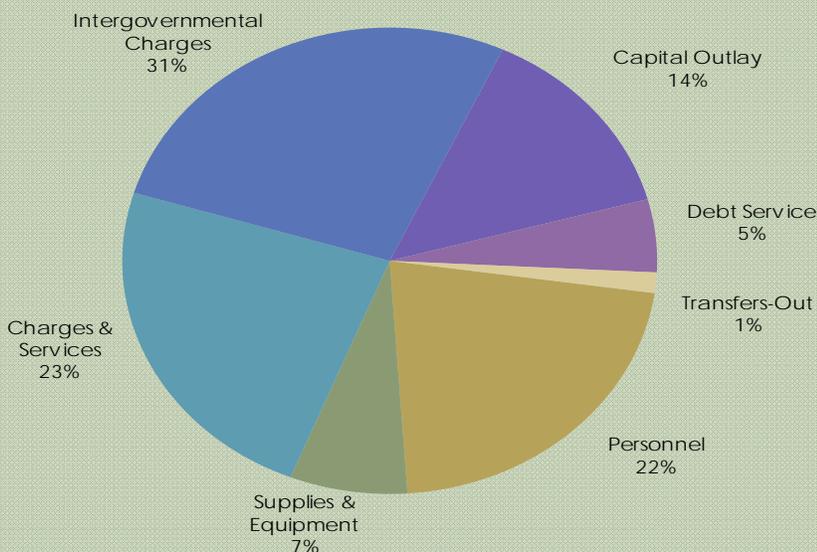
than the four year average. Non-operating expenses in the water and stormwater utilities caused their budget-to actual expenses to end significantly below budget as well as the four year average of budget to actual.

2014 Water expenses finished at 73% of budget, 12% less than the four-year average due to a change in how the City processes capital contributions received on behalf of the Cascade Water Alliance (CWA) and then remitted to them.

2014 was the first year those CWA collections were budgeted as revenue and expenses and the budget reflected a “best guess” at what would be collected and remitted. Such contributions are highly reliant on development activity.

Actual CWA revenue collected was less than budget resulting in less expenses to be paid to CWA. Reducing actual expenses even further was caused by fourth quarter 2014 contributions not being remitted until 2015; a \$719,000 reduction in 2014 expenses that will be reported first quarter of 2015.

Utility Funds: Year-to-Date Expenses by Type

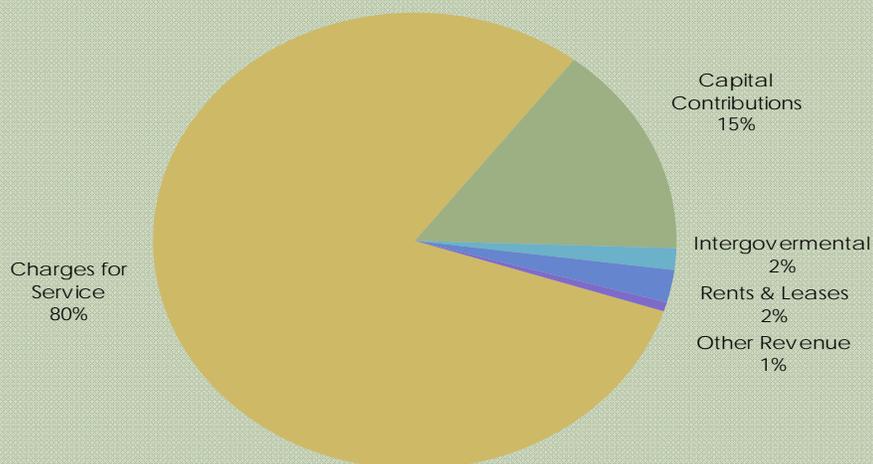


2014 Stormwater expenses finished at 62% of budget, 21% less than the four-year average. Because significantly less than expected grant money being received, the budgeted capital projects related to those grants were not done.

Revenue

The majority of utility revenue, 80%, is earned through charges for services which are the charges utility customers pay for their consumption of water,

Utility Funds - Year to Date Revenue by Source



for capital construction to mitigate increased demand on the capital infrastructure (15%); Grants from other agencies (2%); rental of utility-owned property; and other sources such as transfers-in from other funds.

At year end utility revenue as a whole finished 21% lower than the four-year average of budget to actual. This is primarily due to capital contribution revenue in water and grant funds in stormwater utilities actuals coming in at much less than budget; 19% and 10% respectively.

stormwater removal and sewage treatment. The other 20% of revenue is comprised primarily of fees paid to the City by developers

Sewer revenue finished 8% higher than budgeted. Sewer revenue is not dependent on external, capital-related revenue and is more consistent from year to year.

	Water		Sewer		Stormwater	
	Budget	Year-to-Date	Budget	Year-to-Date	Budget	Year-to-Date
Beginning Balance	\$ 7,270,563	\$ 8,037,181	\$ 2,103,017	\$ 4,899,110	\$ 2,384,539	\$ 2,144,286
Operating Revenues						
Charges for Service	\$ 6,031,000	\$ 6,807,593	\$ 7,631,000	\$ 7,550,996	\$ 4,465,000	\$ 4,338,223
Intergovernmental	-	-	-	-	-	83,036
Other Revenue	1,500	1,150	-	120	-	1,170
Total Operating Revenues	\$ 6,032,500	\$ 6,808,743	\$ 7,631,000	\$ 7,551,116	\$ 4,465,000	\$ 4,422,428
Operating Expenses						
Maintenance & Operation	5,169,526	4,647,709	7,080,390	6,668,642	2,999,050	2,642,215
Total Operating Expenses	5,169,526	4,647,709	7,080,390	6,668,642	2,999,050	2,642,215
Operating Income (Loss)	\$ 862,974	\$ 2,161,034	\$ 550,610	\$ 882,474	\$ 1,465,950	\$ 1,780,214
Non-Operating Revenues						
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ 1,542,740	\$ 275,277
Capital Contributions	4,400,000	3,004,092	50,000	216,833	260,000	289,270
Rents & Leases	70,000	533,950	-	-	-	-
Other Revenue	12,000	33,256	96,200	100,829	5,500	16,486
Total Non-Operating Revenue:	\$ 4,482,000	\$ 3,571,298	\$ 146,200	\$ 317,661	\$ 1,808,240	\$ 581,033
Non-Operating Expenses						
Capital Outlay	\$ 6,722,660	\$ 3,810,638	\$ 656,050	\$ 190,710	\$ 3,171,140	\$ 1,019,718
Debt Service						
Principal	480,000	480,000	-	-	361,300	361,291
Interest	158,850	158,650	-	-	33,600	25,565
Transfers-Out	132,200	122,915	55,600	51,563	123,200	114,642
Total Non-Operating Expenses	\$ 7,493,710	\$ 4,572,203	\$ 711,650	\$ 242,273	\$ 3,689,240	\$ 1,521,215
Ending Balance	\$ 5,121,827	\$ 9,197,311	\$ 2,088,177	\$ 5,856,972	\$ 1,969,489	\$ 2,984,317

Actual Expenses & Revenue^(a) Four-Year Comparison thru Year End

WATER UTILITY

	2011	2012	2013	2014
Beginning Balance	\$ 4,191,129	\$ 4,752,219	\$ 6,807,223	\$ 8,037,181
Operating Revenues				
Charges for Service	\$ 5,309,470	\$ 5,657,349	\$ 6,489,234	\$ 6,807,593
Other Revenue	1,345	1,150	1,960	1,150
Total Operating Revenues	\$ 5,310,815	\$ 5,658,499	\$ 6,491,194	\$ 6,808,743
Operating Expenses				
Maintenance & Operations	\$ 4,619,051	\$ 4,799,230	\$ 4,703,930	\$ 4,647,709
Total Operating Expenses	\$ 4,619,051	\$ 4,799,230	\$ 4,703,930	\$ 4,647,709
Operating Income (Loss)	691,763	859,269	1,787,264	2,161,034
Non-Operating Revenues				
Rents & Leases	\$ 630,862	\$ 657,800	\$ 704,000	\$ 533,950
Capital Contributions	803,970	3,403,179	2,087,039	3,004,092
Debt Service	20,953	-	-	-
Other Revenue	2,826	4,685	15,971	33,256
Total Non-Operating Revenues	\$ 1,458,611	\$ 4,065,664	\$ 2,807,010	\$ 3,571,298
Non-Operating Expenses				
Capital Outlay	\$ 603,264	\$ 1,508,072	\$ 2,213,465	\$ 3,810,638
Debt Service				
Principal	1,055,000	1,005,000	730,000	480,000
Interest	259,270	211,857	178,349	158,650
Transfers-Out	145,000	145,000	242,500	122,915
Total Non-Operating Expenses	\$ 2,062,534	\$ 2,869,929	\$ 3,364,315	\$ 4,572,203
Ending Balance	\$ 4,278,969	\$ 6,807,222	\$ 8,037,182	\$ 9,197,311

Actuals as a Percentage of Budget

	2011	2012	2013	2014	4-Year Average	2014 Performance
Revenue	109%	145%	119%	99%	118%	-19% (b)
Expenses	87%	92%	87%	73%	85%	-12% (b)

(a) Cash basis---no depreciation expense included.

(b) The process of how capital contributions collected on behalf Cascade Water Alliance is collected and remitted changed in 2014. Because 2014 was the first time these expenses and revenues were budgeted, a "best guess" estimate was used. Development activity resulted in fewer contributions collected and the timing of an invoice to remit those collections caused 2014 expenses to be paid in 2015.

SEWER UTILITY

	2011	2012	2013	2014
Beginning Balance	\$ 3,908,103	\$ 4,961,981	\$ 4,049,482	\$ 4,899,110
Operating Revenues				
Charges for Service	\$ 6,868,927	\$ 5,895,298	\$ 7,392,688	\$ 7,550,996
Other Revenue	402	-	130	-
Total Operating Revenues	\$ 6,869,329	\$ 5,895,298	\$ 7,392,818	\$ 7,551,116
Operating Expenses				
Maintenance & Operations	\$ 6,141,606	\$ 6,485,368	\$ 6,408,684	\$ 6,668,642
Total Operating Expenses	\$ 6,141,606	\$ 6,485,368	\$ 6,408,684	\$ 6,668,642
Operating Income (Loss)	727,723	(590,070)	984,134	882,474
Non-Operating Revenues				
Other Revenue	\$ 1,648	\$ 94,010	\$ 100,197	\$ 100,829
Capital Contributions	67,371	115,520	58,899	216,833
Debt Service				
Principal	14,812	5,807	5,807	-
Interest	1,480	15,789	325	-
Total Non-Operating Revenues	\$ 69,020	\$ 209,530	\$ 159,096	\$ 317,661
Non-Operating Expenses				
Capital Outlay	\$ 453,258	\$ 448,419	\$ 603,896	\$ 190,710
Transfers-Out	90,000	90,000	122,500	51,563
Total Non-Operating Expenses	\$ 543,258	\$ 538,419	\$ 726,396	\$ 242,273
Ending Balance	\$ 4,177,879	\$ 4,064,619	\$ 4,472,449	\$ 5,856,972

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 expenses directly related to KC Metro are shown below.

KC Metro Sewer	2011 Actual	2012 Actual	2013 Actual	2014 Actual	% Change from 2013
Operating Expenses	\$ 4,869,814	\$ 5,144,714	\$ 5,189,994	\$ 5,364,528	3%
% of All Sewer Operating Expenses	79%	79%	81%	80%	
Operating Revenue	\$ 4,934,646	\$ 4,781,110	\$ 5,365,790	\$ 5,465,097	2%
% of All Sewer Operating Revenue	72%	81%	73%	72%	

STORMWATER UTILITY

	2011	2012	2013	2014
Beginning Balance	\$ 2,421,361	\$ 3,503,340	\$ 2,795,117	\$ 2,144,286
Operating Revenues				
Charges for Service	\$ 4,093,279	\$ 3,569,940	\$ 4,261,272	\$ 4,338,223
Intergovernmental	-	-	53,078	83,036
Other Revenue	1,650	1,600	150	1,170
Total Operating Revenues	\$ 4,094,929	\$ 3,571,540	\$ 4,314,500	\$ 4,422,428
Operating Expenses				
Maintenance & Operations	\$ 2,572,315	\$ 2,676,792	\$ 3,149,163	\$ 2,642,215
Total Operating Expenses	\$ 2,572,315	\$ 2,676,792	\$ 3,149,163	\$ 2,642,215
Operating Income (Loss)	1,522,614	894,748	1,165,337	1,780,214
Non-Operating Revenues				
Intergovernmental	\$ 1,350,887	\$ 556,389	\$ 396,056	\$ 275,277
Debt Service	1,500,000	-	-	-
Transfers-In	290,000	-	-	-
Capital Contributions	30,812	19,725	77,176	289,270
Other Revenue	16,465	5,559	53,648	16,486
Total Non-Operating Revenues	\$ 3,188,163	\$ 581,673	\$ 526,880	\$ 581,033
Non-Operating Expenses				
Capital Outlay	\$ 1,812,682	\$ 1,332,663	\$ 1,710,483	\$ 1,019,718
Debt Service				
Principal	2,321,291	661,291	361,291	361,291
Interest	136,199	53,790	33,677	25,565
Transfers-Out	144,033	141,000	233,500	114,642
Total Non-Operating Expenses	\$ 4,414,205	\$ 2,188,745	\$ 2,338,952	\$ 1,521,215
Ending Balance	\$ 2,717,933	\$ 2,791,017	\$ 2,148,382	\$ 2,984,317

Actuals as a Percentage of Budget

	2011	2012	2013	2014	4-Year Average	2014 Performance
Revenue	94%	76%	109%	80%	90%	-10% (a)
Expenses	86%	88%	97%	62%	83%	-21% (a)

(a) Significantly less than expected grant funding was received. This resulted in lower-than-budget capital projects related to those grants postponed until additional fund could be acquired.

Economic Outlook Update

Economy in Brief

- * The national and Washington economies are advancing at a solid pace.
- * U.S. employment growth has exceeded forecasted expectations experiencing the strongest growth of new jobs since 1997. The Washington economy added 31,600 jobs since third quarter - 13,300 more than the 18,300 expected.
- * Oil prices remain low after having dropped sharply in recent months. Increased domestic supply combined with a global drop in demand has led oil prices to drop over \$50 per barrel since peaking last summer.
- * Consumer confidence has finally broken out of recessionary territory. The recent fall in gas prices has given consumers some extra expendable income. An improving economy and stronger labor market conditions have enabled consumers to feel more confident.
- * Washington exports reached an all-time high thanks to transportation equipment and agriculture.
- * Seattle home prices have increase 30% since the trough.
- * Single-family home construction remains weak .
- * Multi-family construction has returned to pre-recession levels.
- * December 2014 inflation in the Seattle area is 1.7% higher than the previous December.

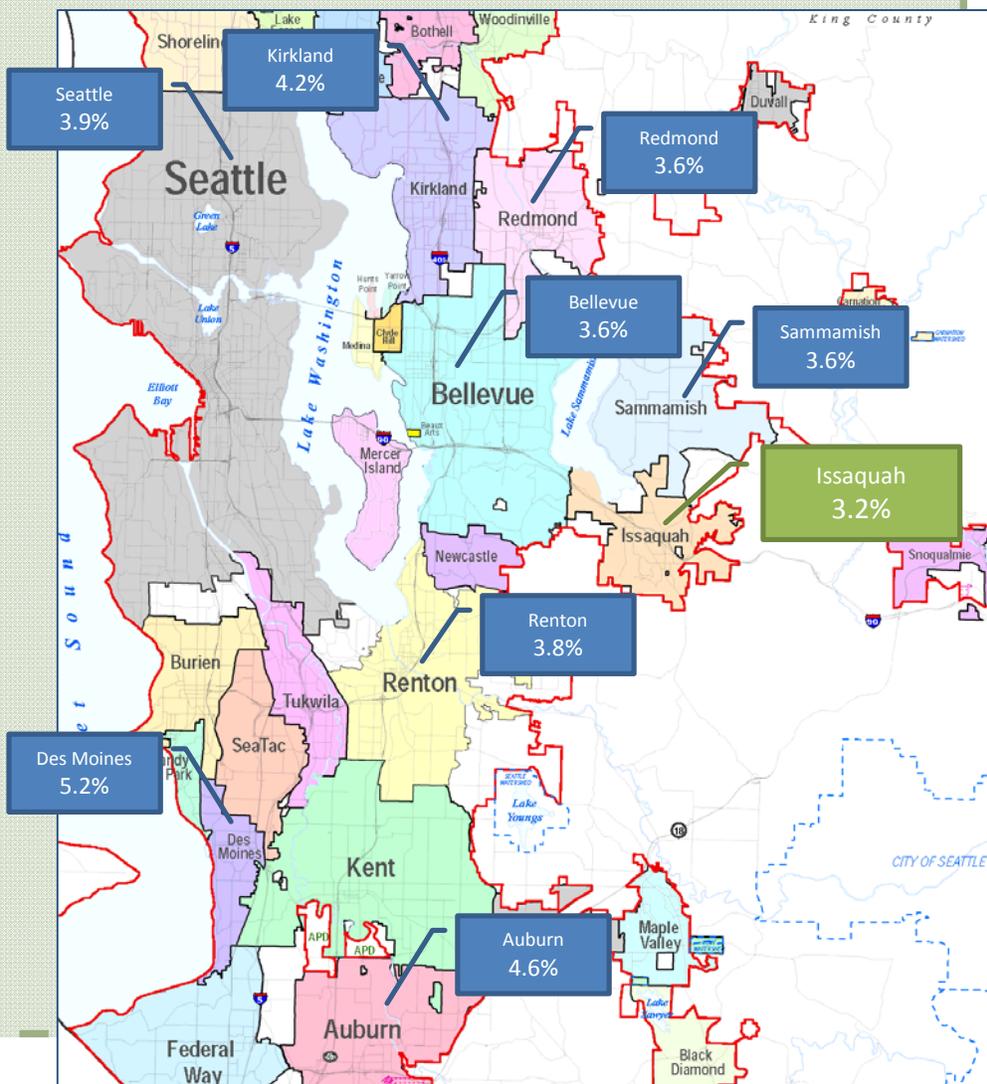
Washington and the Region

Employment

Based on a Bureau of Labor Statistics survey of businesses and governments, Washington added an estimated 82,900 jobs from December 2013 to December 2014 (not seasonally adjusted).

Private sector employment rose 2.9%, up an estimated 73,400 jobs, while public sector employment increased 1.7% for a net gain of 9,500 jobs. The industry with the highest amount of jobs added is in professional and business

Local Area Unemployment - December 2014 (US Bureau of Labor Statistics)



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Washington Employment Security Department

services category.

Initial claims for unemployment insurance reached new pre-recession lows. Claims have fallen more than 55% since the peak and are now lower than before the onset of the recession.

The City of Issaquah currently enjoys one of the lowest unemployment rates in the region.

(Sources: Washington State Employment Security Department, Monthly Employment Report for December 2014.)

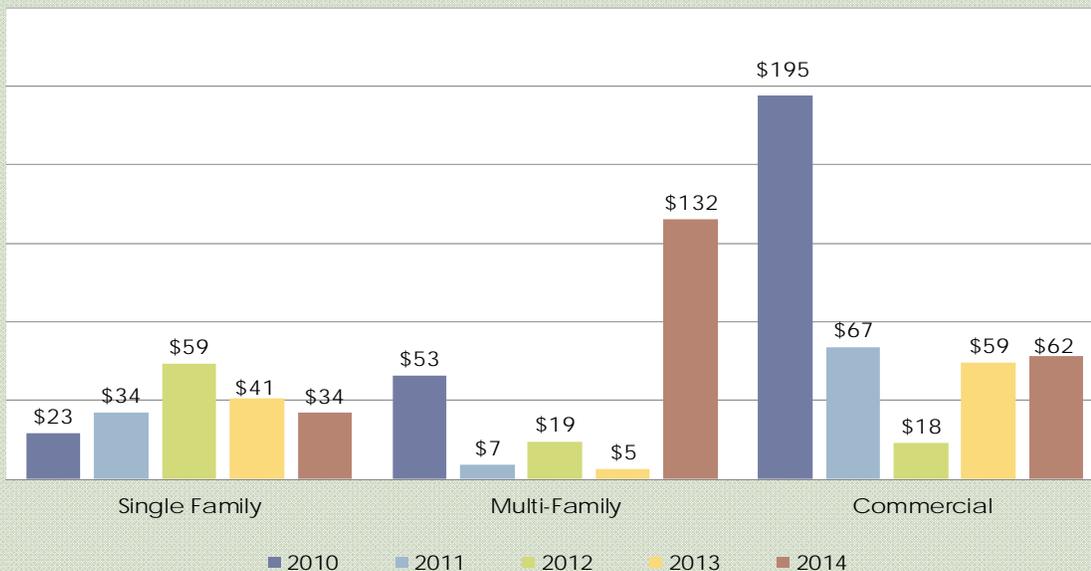
	Dec 2013	Dec 2014
United States		
Unemployment Rate	6.7%	5.6%
Washington		
Unemployment Rate	6.7%	6.3%
Resident Labor Force	3,450,100	3,507,100
Unemployed	230,200	220,500
Seattle/Bellevue/Everett		
Unemployment Rate	5.3%	4.6%
Resident Labor Force	1,536,700	1,559,700
Unemployed	81,000	71,300
Issaquah		
Unemployment Rate	3.8%	3.2%
Resident Labor Force	19,549	19,714
Unemployed	739	621

Construction

State-wide, after strong growth in 2012 and 2013, the housing recovery in Washington faltered in 2014. Housing units authorized by building permits rose only 1.1% in 2014 to 33,300

units. The housing recovery to date has been mostly in the multi-family segment. Multi-family housing recovered from a pre-recession low of only 4,000 units in 2009 to 15,700 in 2014.

**Valuation of Building Permits
YTD Through December
(in millions)**



Further growth in multi-family housing construction is expected with the number of units in the 16,000 to 17,000 range.

The recovery in single family construction has been much less

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robust, from 13,000 units in 2009 to 17,600 in 2014.

Locally, new single family permitting followed a similar forward trend with permits for new single family dropping 36% from 2013 year end levels, and 58% below 2012's high.

New multi-family permitting far surpassed the state's equivalent statistics, increasing 1,025% over 2013 levels, bringing in more permits than 2010, 2011, 2012 and 2013 combined. Much of this development is occurring the Issaquah Highlands.

Inflation

Seattle area consumer price inflation remains relatively tame thanks mainly to falling energy costs.

Over the last year, from December 2013 to December 2014, consumer prices in the Seattle

Year-to-Date Building Permit Activity in Issaquah

Permit Type	2010	2011	2012	2013	2014
Single Family:					
New	83	125	216	141	90
Alterations	82	90	65	60	59
Multi-family:					
New	26	5	5	4	45
Alterations	78	33	29	6	19
Commercial:					
New	11	8	9	17	10
Alterations	114	119	104	150	117

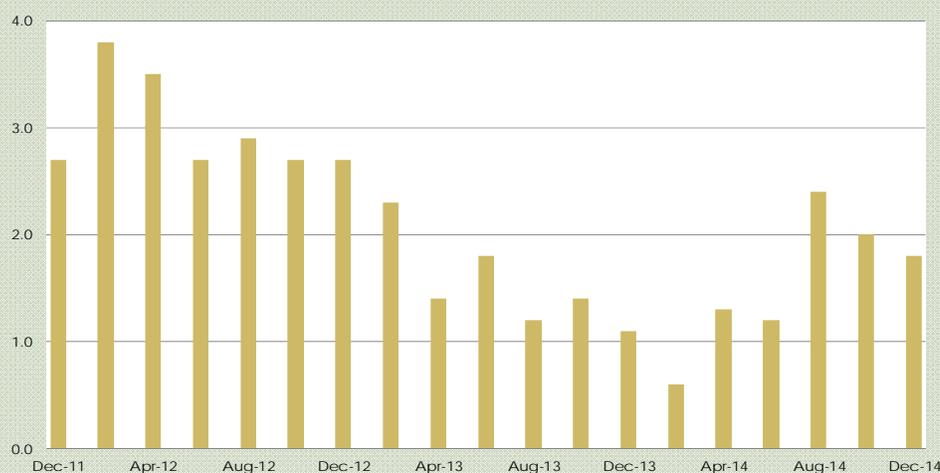
area rose 1.7% compared to 0.7% for the nation.

Core prices, which exclude food and energy, were up 2.6% in Seattle compared to 1.6% for the nation. The reason Seattle inflation was so much higher than the national rate is much more rapid growth in shelter costs.

During the year, shelter costs in Seattle rose 5.2% compared to 2.9% for the nation. Excluding shelter costs, Seattle inflation was -0.1% over the year which is only slightly higher than the national rate of -0.4%.

U.S. Bureau of Labor Statistics - Rate of Inflation (CPI-U)

Consumer Price Index (CPI-U) - Historical Trend



Housing

Seattle home prices may be peaking. According to the S&P/Case-Shiller Home Price Indices, seasonally adjusted Seattle area home prices increased 1.2% in December, following a 0.5% increase in November and a 0.8% increase in October.

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The median selling price in 2014 of a home in Issaquah was \$445,000 --Trulia

Seattle area home prices have declined only once (last May) in the last three years. Prices are up 6.6% over the previous December and are 30.0% higher than the November 2011 trough.

The steady gains in the Seattle area index have brought local home prices to within 9.7% of the pre-recession peak.

Risks to Economic Recovery

Risks to the local economy are generally from factors outside the state.

These risks include:

- * **Federal fiscal policy.** Federal policy remains a drag on economic growth through lower-than-average spending. Monetary policy remains amenable, but rate increases are expected this year.
- * **Foreign Weak growth.** Weak growth in Europe and China remains a threat to the U.S. economy; and
- * **Political Turmoil.** Continuing geopolitical turmoil in the Middle East and Eastern Europe.

Number of Active Issaquah Business Licenses	
2011	4,331
2012	4,715
2013	4,848
2014**	5,185

**1,407 active licensees have applied for and qualified to file B&O Tax returns annually

(Source: Washington State Economic & Revenue Forecast Council, February 15, 2015 .)

Conference Board Consumer Confidence Index

Consumer Confidence - Historical Trend

