CITY OF ISSAQUAH WASHINGTON

2015 First Quarter Financial Status Report

AT A GLANCE:

- **The warm winter had a negative effect on natural gas and electricity utility taxes.**
- **Sales tax as a whole is 10% higher than first quarter of 2014; with construction-related sales tax up 47%.**
- **Development activity remains strong - especially permitted multi-family residential which added 415 units first quarter.**

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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 quarter ended March 31, 2015.

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.

Statue honoring Harvey Manning

Performance at a Glance

	Year-to-Date Performance	Compared to Budget
General Fund Expenditure vs. Budget	Neutral	0%
General Fund Revenue vs. Budget	Neutral	-1%
Tax Revenue Performance	Neutral	1%
Utility Funds Expenditures vs. Budget	Warning	10%
Utility Funds Revenues vs. Budget	Positive	5%

Key to Expenditure Trend 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 8, 2015

General Fund: 2015 First Quarter Performance

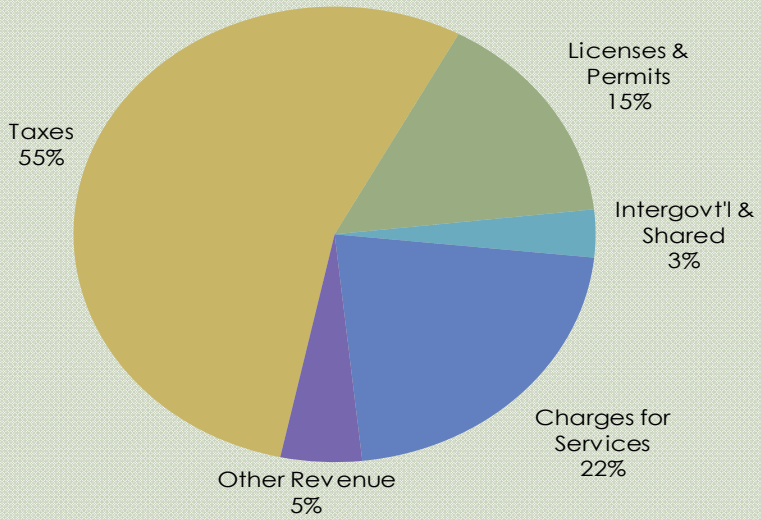
Revenue Highlights

The primary revenue sources for the General Fund are taxes, charges for services and licenses and permits. Together, these revenue sources comprise about 92% of the total General Fund revenue.

As of March 31, total General Fund revenue finished at $8,231,563, 21% of the 2015 budgeted amount; 9% higher than 2014.

Three major revenue sources, Sales Tax, Development-related Fees and Jail Services, all experienced gains in the first quarter of 2015 compared to the same period in 2014; with Development Fees and Jail Services showing significant gains; 132% and 36% respectively.

General Fund Actual Revenue by Source



Three major revenue sources reported significantly less revenue comparatively - Property Taxes, Utility Taxes and Recreation Fees.

Taxes

Sales Tax (+10%)

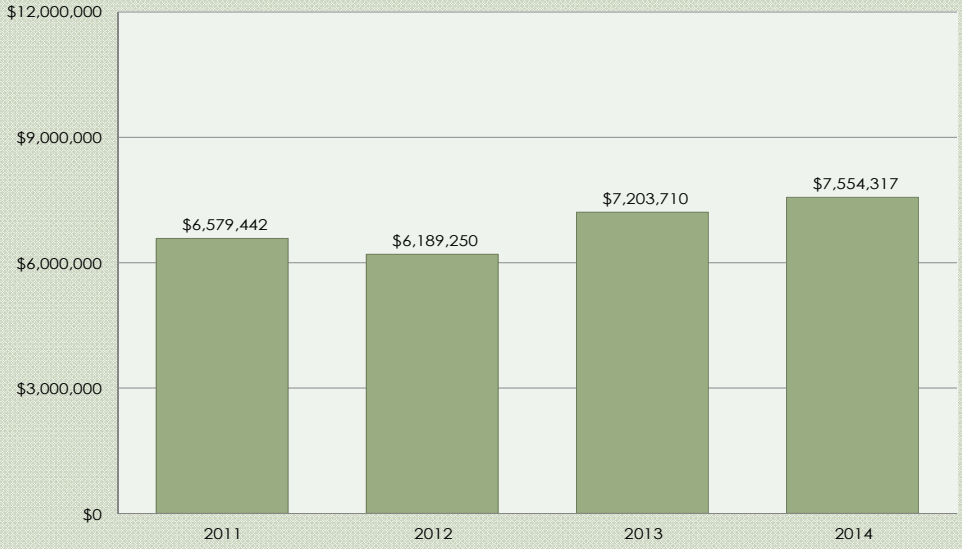
Sales Tax is the largest source of tax revenue for the City and is highly reliant on the local economy. First quarter 2015 saw a 10% gain in sales tax over 2014, largely due to construction-related sales tax. Sales tax is explored further on *Page 7*.

Property Tax (-25%)

Property Tax represents the second largest source of tax revenue for the City and showed a decrease of 25% for 2015 over first quarter of 2014, but is only 1% less than the four -year average for property tax as received in the first quarter.

2014 represented an anomaly related to tax payers remitting their tax payments before the April 30 due date. The majority of property tax is remitted to the City in the second and fourth quarters.

General Fund Actual Revenue Received
Through March 31



General Fund Major Revenue Sources - Actual Revenue Received

Through the Quarter Ended March 31

Revenue Source	2012 Actual	2013 Actual	2014 Actual	2015 Actual	% Change From 2014
Sales Tax	$ 1,735,443	$ 2,067,830	$ 2,251,700	$ 2,471,047	10%
Property Tax	270,530	315,765	457,771	341,848	-25%
Utility Taxes	1,237,690	1,208,131	1,312,363	937,808	-29%
Development Fees	270,113	905,381	600,519	1,392,306	132%
B&O Tax	585,136	640,326	673,773	668,532	-1%
Recreation Fees	580,410	682,945	721,013	516,293	-28%
Jail Services	355,890	301,400	298,988	405,740	36%
Court Fines/Fees	288,831	224,861	263,739	258,208	-2%

Utility Taxes (-29%)

Utility taxes are the third largest source of General Fund revenue, comprising 21% of all general fund revenue received for first quarter 2015.

Utility taxes are levied on the gross income derived from the sales of electricity, natural gas, water, solid waste collection, telephone (wireless and land line) and cable television services provided within City limits and are collected monthly.

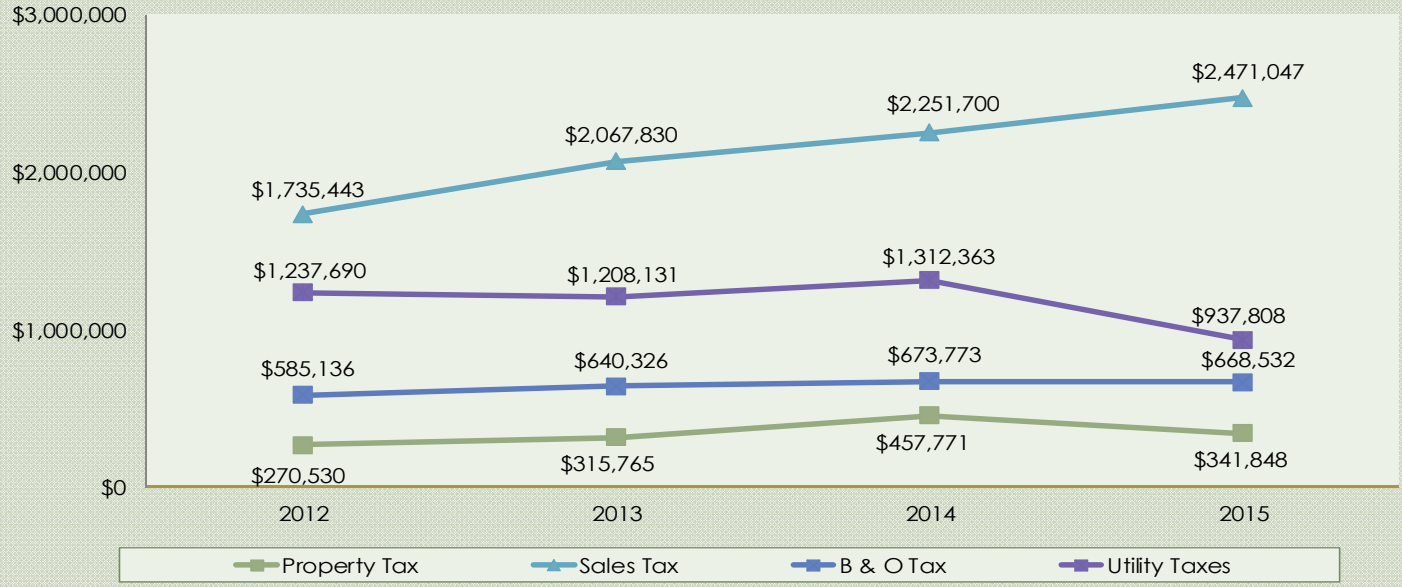
The 29% dip in utility taxes in first quarter of 2015 can be attributed to the unusually mild winter experienced in the Pacific Northwest. This resulted in decreased consumption of natural gas and electricity, and less utility tax revenue.

B & O Tax (-1%)

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 $25,000 in a quarter or more

(Continued on page 4)

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



General Fund: 2015 First Quarter Performance (cont.)

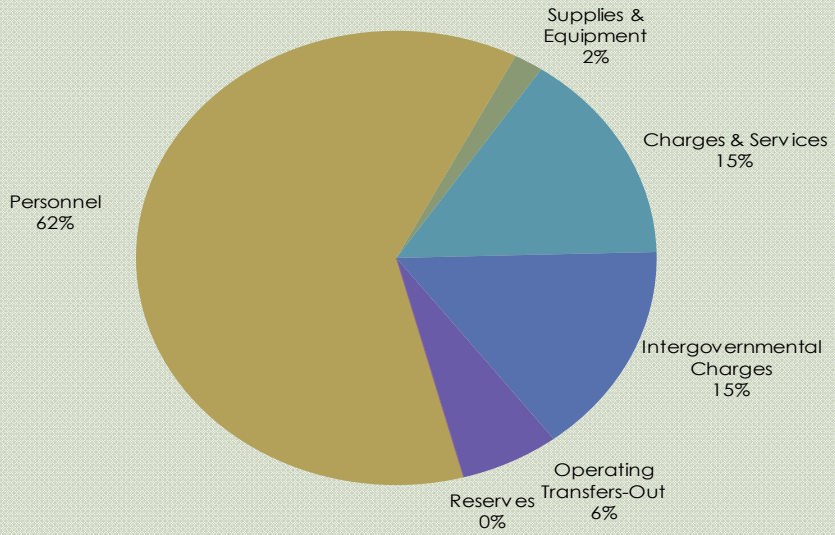
(Continued from page 3)

than $100,000 annually in the fiscal year. These increased income exemptions took affect January 1, 2015.

In 2014 there were 1,287 annual filers. As a result of legislative changes, in the first quarter of 2015 alone we had 2,214 businesses who registered and qualified to file their B&O taxes annually.

The 1% decrease in first quarter 2015 B&O revenue over 2014 is related to that significant increase in the number of businesses qualifying to file their taxes annually.

General Fund Actual Expenditures by Type



Other Major Revenue

Development Fees (+132%)

Development fee revenue includes building permit fees, engineering services, review and inspection services, as well as expedited review and inspection services.

Increased development activities associated with the first steps in implementing the Central Issaquah Plan as well as continuing development in the Issaquah Highlands contributes to the marked increase in 2015 permit revenue to 2014.

Also, with the implementation of the expedited review and inspection program, which is billed on a time and materials basis, what appears to be burgeoning development revenue is actually a direct cost recovery of contracted service expenditures the City makes in order to provide the expedited services.

Recreation Fees (-28%)

Recreation fees include the fees paid to participate in Parks Department recreation and aquatics programs. The 28% decrease in fees received in first quarter 2015 compared to 2014 is directly related to the closure of the Julius Boehm Pool for renovation beginning in late November 2014. The pool is expected to reopen late August 2015.

General Fund - Actual Expenditures & Revenue

Through the Quarter Ended March 31

General Fund	2012 Actual	2013 Actual	2014 Actual	2015 Actual	*% Change From 2014*
Revenue	$ 6,189,250	$ 7,203,710	$ 7,554,317	$ 8,231,563	9%
Expenditures	8,491,970	9,453,139	9,105,307	9,764,092	7%
Difference	**$ (2,302,720)**	**$ (2,249,429)**	**$ (1,550,990)**	**$ (1,532,529)**	

Jail Services (+36%)

Jail Services 2015 revenue received increased 36% over first quarter 2014, and is 5% above the four-year average. 2015 represents the highest first quarter revenue collected since 2010's high water mark. The 2015 revenue increase can be tied to the nearly double usage of available beds in the jail.

Court Fines & Fees (-2%)

Court Fines/Fees revenue is down 2% from 2014 revenue. This reduction is mainly related to a decrease in traffic infractions. Photo enforcement citations, however, are considered non-traffic citations and remain consistent.

Expenditure Highlights

Expenditures in the General Fund are incurred in the provision of general government services which include police and fire protection; planning and community development; cultural, recreation, financial, and administrative services; and City management.

Year-to-date expenditures as of March 31 are $9,764,092; 25% of the 2015 budgeted amount. This figure is 7% greater than first quarter 2014 and consistent with the four-year average.

A snapshot of 2015 first quarter expenditures by department is presented below. A more detailed analysis of budget-to-actual variances by department can be found on *Page 9*.

General Fund Departments - Actual Expenditures

Through March 31

Department Name	Budget	Actual for the 1st Quarter	Year-to-Date Actual	Year-to-Date % of Budget
City Council	$ 86,300	$ 29,394	$ 29,394	34%
Municipal Court	895,500	234,838	234,838	26%
Executive	816,000	223,426	223,426	27%
Finance	1,028,150	283,769	283,769	28%
Legal	607,000	99,788	99,788	16%
Support Svcs & Systems	463,500	133,888	133,888	29%
Human Resources	383,750	101,072	101,072	26%
Information Technology	656,300	166,310	166,310	25%
City Clerk	303,450	71,952	71,952	24%
Police	9,483,200	2,697,237	2,697,237	28%
Fire	5,835,700	1,451,302	1,451,302	25%
Communications	304,050	78,306	78,306	26%
Human Services	843,200	51,367	51,367	6%
Development Services	5,310,640	1,299,572	1,299,572	24%
Economic Development	676,800	176,191	176,191	26%
Parks & Recreation	7,482,000	1,798,600	1,798,600	24%
Other General Govt'l	3,588,750	867,080	867,080	24%
Total GF Departments	**$ 38,764,290**	**$ 9,764,092**	**$ 9,764,092**	25%

General Fund: Revenue from All Sources

Revenue Source	Budget	Actual for the 1st Quarter	Year-to-Date Actual	Year-to-Date % of Budget
Property Tax	$ 7,734,000	$ 341,848	$ 341,848	4%
Sales Tax	8,752,000	2,471,047	2,471,047	28%
Business & Occupation Tax	3,606,000	668,532	668,532	19%
Utility Taxes	4,875,000	937,808	937,808	19%
Other Taxes	220,600	71,031	71,031	32%
Total Taxes	*25,187,600*	*4,490,267*	*4,490,267*	*18%*
Building/Development Fees	$ 3,607,840	$ 1,179,660	$ 1,179,660	33%
Business Licenses	274,000	77,318	77,318	28%
Other Licenses/Permits	17,700	7,642	7,642	43%
Total Licenses & Permits	*3,899,540*	*1,264,620*	*1,264,620*	*32%*
Federal Grants	$ 130,000	$ 26,787	$ 26,787	21%
State & Local Grants	5,000	-	-	0%
Sales Tax Mitigation	560,000	142,276	142,276	25%
Criminal Justice (State)	44,600	11,477	11,477	26%
Liquor	377,400	88,402	88,402	23%
Misc Intergov'tl/Shared	-	10,000	10,000 (a)	
Total Intergovt'l/Shared	*1,117,000*	*278,943*	*278,943*	*25%*
Jail Services/Fees	1,501,500	405,740	405,740	27%
Court Fees & Fines	1,138,100	258,208	258,208	23%
Recreation/Pool Fees	2,068,400	516,293	516,293	25%
Development Fees	950,700	212,647	212,647	22%
Dispatch Services	580,000	136,976	136,976	24%
Other Fees & Charges	955,800	254,121	254,121	27%
Total Charges for Services	*7,194,500*	*1,783,986*	*1,783,986*	*25%*
Investment Interest	$ 168,100	$ 56,313	$ 56,313	33%
Rents & Leases	832,000	245,166	245,166	29%
Other Miscellaneous Revenue	50,000	11,395	11,395	23%
Total Miscellaneous Revenue	*1,050,100*	*312,874*	*312,874*	*30%*
Operating Transfers-In	$ 302,500	$ 75,875	$ 75,875	25%
Misc Other Sources	-	24,999	24,998	
Total from Other Sources	*302,500*	*100,874*	*100,873*	*33%*
Total General Fund Revenue	**$ 38,751,240**	**$ 8,231,563**	**$ 8,231,563**	**21%**

(a) One tine payment from Washington State Parks & Recreation Commission for reimbursement of costs related to the Lake Sammamish State Park annexation.

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 March 31, 2015, is $2,471,047, or 28% of the total amount budgeted for retail sales tax. In comparison to 2014, the City received $219,347, or 10% more in retail sales tax in 2015.

Major Tax Category Performance

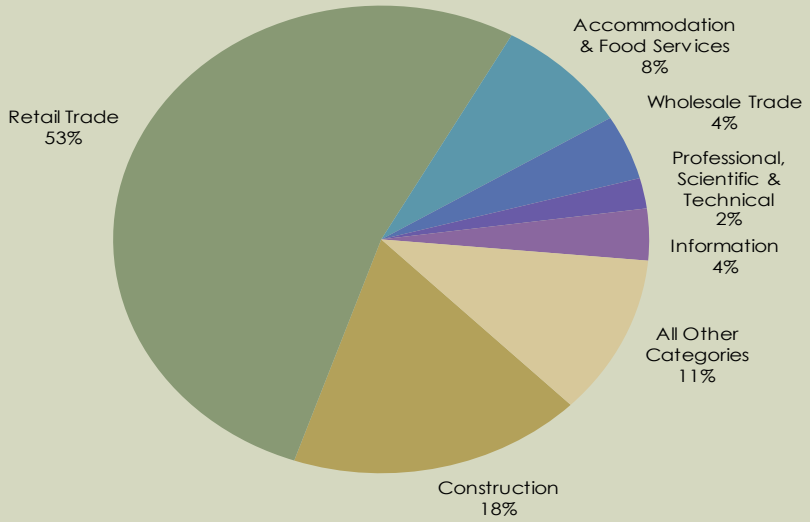
The City of Issaquah receives the majority of its retail sales tax, 71%, from two categories: Retail Trade at 53% and Construction at 18%. While Retail Trade-related sales tax remained about the same, Construction-related sales tax for 2015 was 47% higher than that received first quarter of 2014; the highest since 2011.

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

In 2015, Issaquah Highlands construction activity continues to be a factor, along with the initial construction related to the Central Issaquah Plan that has begun as well.

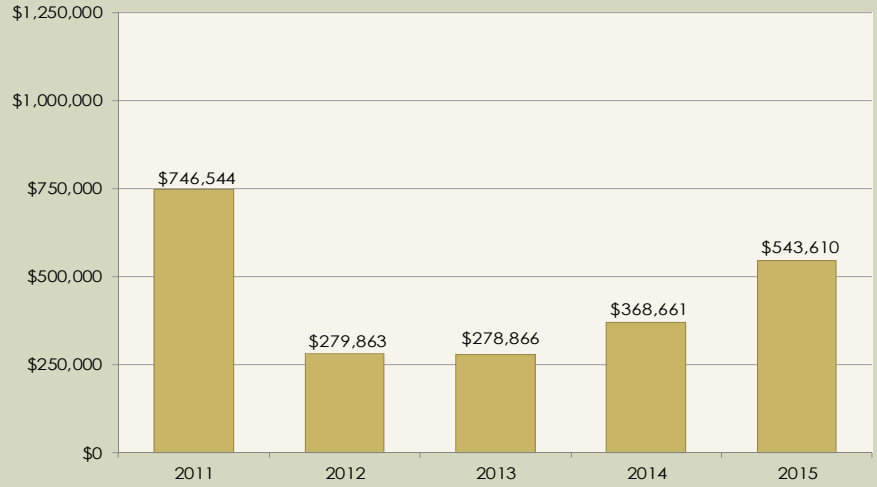
Higher than budgeted development revenue throughout 2014 and for the first quarter 2015 leads to an expectation of a continued surge in construction in 2015.

Sales Tax Categories



Retail Trade
Year-to-Date Received Through 1st Quarter

Construction
Year-to-Date Received Through 1st Quarter



General Fund: Department Expenditures

Overall, actual 2015 expenditures for the General Fund departments ended the first quarter 7% higher than first quarter 2014. Eleven out of seventeen General Fund departments finished the first quarter of 2015 either significantly higher or lower than the same quarter last year.

2015 actual department expenditures that ended significantly higher or lower than first quarter 2014 expenditures are illustrated below and explained on the next page.

General Fund Expenditures - Four-Year Comparison

Through the Quarter Ended March 31

Department	2012 Actual	2013 Actual	2014 Actual	2015 Actual	% Change From 2014
City Council	$ 20,728	$ 19,372	$ 27,251	$ 29,394	8% (a)
Municipal Court	159,661	197,876	207,390	234,838	13% (b)
Executive	205,760	287,873	231,647	223,426	-4%
Finance	256,420	390,116	277,754	283,769	2%
Legal	100,736	95,499	72,271	99,788	38% (c)
Support Svcs & Systems	-	-	99,553	133,888	34% (d)
Human Resources	138,710	98,797	98,547	101,072	3%
Information Technology	253,250	179,132	162,683	166,310	2%
City Clerk	87,251	104,348	77,104	71,952	-7% (e)
Police	2,090,314	2,316,382	2,452,565	2,697,237	10% (f)
Fire	1,176,783	1,264,115	1,318,080	1,451,302	10% (g)
Communications	-	51,116	68,349	78,306	15% (h)
Human Services	48,523	62,822	59,459	51,367	-14% (i)
Development Services	950,134	1,359,391	1,217,850	1,299,572	7% (j)
Economic Development	-	132,959	172,602	176,191	2%
Parks & Recreation	1,841,707	1,788,376	1,860,514	1,798,600	-3%
Other General Govt'l	1,161,992	1,104,966	701,688	867,080	24% (k)
Total GF Departments	**$ 8,491,970**	**$ 9,453,139**	**$ 9,105,307**	**$ 9,764,092**	**7%**

General Fund: Department Expenditures (cont.)

Explanation of Significant % Variance of Budget Expended

(a) **City Council +8%** - Beginning in 2014, insurance costs were distributed to individual departments. Increased insurance costs, as well as increased benefits costs, account for the increase in expenditures over 2014.

(b) **Municipal Court +13%** - The increase in 2015 first quarter expenditures compared to 2014 is associated with the addition of a half-time regular employee Court Security Officer position, which replaced the previously budgeted part-time non-regular security services.

(c) **Legal +38%** - The increase in 2015 first quarter legal services is directly linked to an increase in general municipal services related to the increase in development activity.

(d) **Support Services & Systems +34%** - 2015 first quarter expenses were higher than 2014 because a full-time employee was moved from the City Facilities division of the Parks & Recreation Department to the Support Services Department.

(e) **City Clerk -7%** - The 2015 decrease is due to vacancy of the Administrative Assistant position which had been filled in the first quarter of 2014.

(f) **Police +10%** - The 10% increase in 2015 expenditures over 2014 includes the addition of one police officer halfway through the 2014 budget.

(g) **Fire +10%** - The increase in 2015 expenses is directly related to the increase in the cost of contracted services provided by Eastside Fire & Rescue compared to 2014.

(h) **Communications +10%** - 2015 costs increased as a result of staff promotions.

(i) **Human Services -14%** - The reduction in 2015 compared to 2014 is due to the different timing of the payment of invoices.

(j) **Development Services +7%** - 2015's increased costs are primarily related to increases in contracted review fees to accommodate the demand for expedited permit review services.

Other General Govt'l +24% - Most of the increase in expenditures from 2014 to 2015 is from:

- *Commute Trip Reduction plan incentive expenses moved from the Sustainability fund to the General fund;*
- *Facility improvements to accommodate departmental reorganizations and improve customer access to staff; and*
- *An increase in interfund transfers from the General Fund to the Street and Unemployment funds.*

Utility Funds: 2015 First Quarter Highlights

Beginning in 2014, the City'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 below.

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

As of March 31, 2015, all utility expenses ended 5% higher than the four year average. Non-operating costs in the Water and operating expenses in Sewer Utilities caused their budget-to-actual expenses to end the quarter above the four year average.

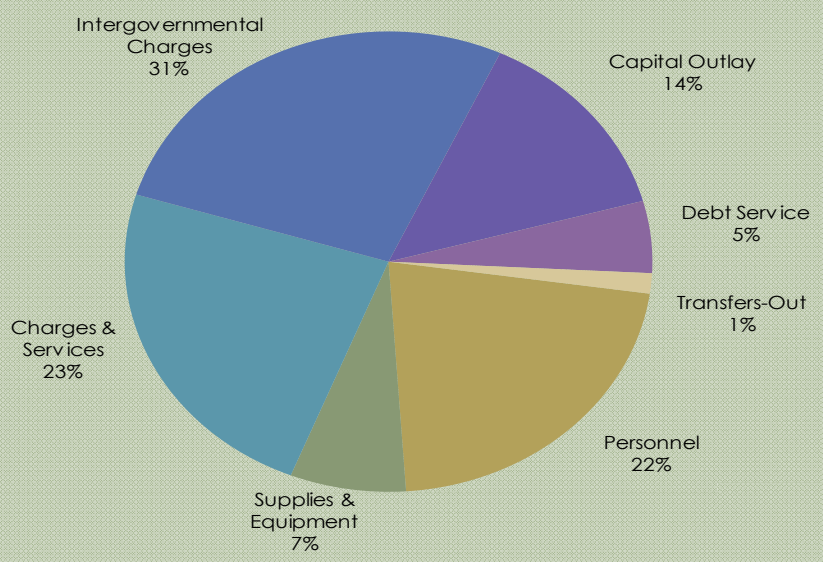
2015 first quarter Water expenses finished at 23% of budget; 6% higher than the four-year average due to a 2014 change in how the City processes capital contributions received on behalf of the Cascade Water Alliance (CWA) and that the City then remits to them.

Actual CWA expenses for first quarter 2015 are at 45% of budget because of the timing of when the fourth quarter CWA expenses were paid. The invoice was received after the cut-off for 2014 expenses resulting in a reduction of 2014 expenses but an increase in 2015 expenses by $719,000.

The 9% increase from 2014 to 2015 in Sewer operating expenses is tied, in large part, to the increase in King County METRO sewage treatment costs.

First quarter Stormwater expenses finished at 12% of budget; 4% less than the four-year average as a result of the 2015 budget for Stormwater funds being 12% higher than the 2014 budgeted amount.

Utility Funds: Year-to-Date Expenditures by Type

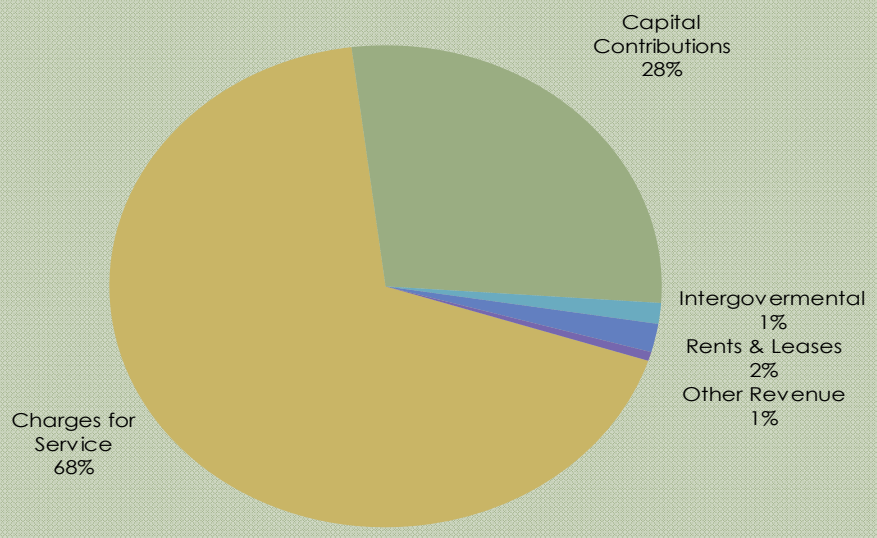


Revenue

The majority of first quarter utility revenue, 68%, is earned through charges for services, which are the charges utility customers pay for their consumption of water, stormwater removal and sewage treatment. The other 32% of revenue is comprised primarily of fees paid to the City by developers for capital construction to mitigate increased demand on the capital infrastructure; funds from other agencies; rental of utility-owned property; and other sources such as transfers-in from other funds.

At quarter-end Utility revenue, as a

Utility Funds - Year to Date Revenue by Source



whole, finished 10% higher than the four-year average of budget-to-actual. This is primarily due to a large development project that brought higher-than-expected capital contributions to the Water and Sewer capital funds.

First quarter revenue for the Water funds is running 10% higher than the four-year average, while Sewer funds revenue is 5% higher than budgeted. This, again, is attributed to higher than expected capital contributions for both utilities as well as a 5.6% King County METRO sewer rate increase.

Overall, first quarter revenue for Stormwater funds is running 4% below the four year average due to the low receipt of expected intergovernmental funding for capital projects. Charges for Service actually finished first quarter 4% higher than first quarter 2014.

	Water		Sewer		Stormwater	
	Budget	Year-to-Date	Budget	Year-to-Date	Budget	Year-to-Date
Beginning Balance	**$ 9,158,283**	**$ 8,253,414**	**$ 5,114,762**	**$ 5,917,115**	**$ 2,574,796**	**$ 2,850,862**
Operating Revenues						
Charges for Service	$ 6,237,000	$ 1,293,980	$ 7,701,500	$ 1,760,091	$ 4,455,000	$ 1,171,563
Intergovernmental	-	-	-	-	-	21,705
Other Revenue	1,500	100	-	-	-	-
Total Operating Revenues	$ 6,238,500	$ 1,294,080	$ 7,701,500	$ 1,760,091	$ 4,455,000	$ 1,193,268
Operating Expenses						
Maintenance & Operation	5,344,700	1,368,744	7,187,300	1,804,567	3,180,155	701,441
Total Operating Expenses	5,344,700	1,368,744	7,187,300	1,804,567	3,180,155	701,441
Operating Income (Loss)	***$ 893,800***	***$ (74,665)***	***$ 514,200***	***$ (44,476)***	***$ 1,274,845***	***$ 491,827***
Non-Operating Revenues						
Intergovernmental	$ -	$ -	$ -	$ -	$ 2,141,400	$ 65,034
Capital Contributions	1,800,000	1,154,906	55,000	464,790	276,000	123,511
Rents & Leases	513,950	118,488	-	-	-	-
Other Revenue	17,000	26,394	56,000	4,639	186,000	5,956
Total Non-Operating Revenues	$ 2,330,950	$ 1,299,788	$ 111,000	$ 469,429	$ 2,603,400	$ 194,501
Non-Operating Expenses						
Capital Outlay	$ 4,444,900	$ 976,422	$ 211,625	$ 5,808	$ 3,762,640	$ 179,138
Debt Service						
Principal	495,000	-	-	-	361,300	-
Interest	144,500	54	-	-	18,600	-
Transfers-Out	100,000	25,000	45,000	11,250	141,000	24,000
Total Non-Operating Expenses	$ 5,184,400	$ 1,001,476	$ 256,625	$ 17,058	$ 4,283,540	$ 203,138
Ending Balance	**$ 7,198,633**	**$ 8,477,061**	**$ 5,483,337**	**$ 6,325,010**	**$ 2,169,501**	**$ 3,334,052**

Actual Expenses & Revenue[a] Four-Year Comparison thru Year End

WATER UTILITY

	2012	2013	2014	2015
Beginning Balance	**$ 4,274,401**	**$ 6,807,223**	**$ 8,037,181**	**$ 8,253,414**
Operating Revenues				
Charges for Service	$ 1,063,693	$ 1,273,127	$ 1,226,053	$ 1,293,980
Other Revenue	150	300	100	100
Total Operating Revenues	$ 1,063,843	$ 1,273,427	$ 1,226,153	$ 1,294,080
Operating Expenses				
Maintenance & Operations	$ 1,330,771	$ 1,329,427	$ 1,228,350	$ 1,368,744
Total Operating Expenses	$ 1,330,771	$ 1,329,427	$ 1,228,350	$ 1,368,744
Operating Income (Loss)	***(266,929)***	***(56,000)***	***(2,197)***	***(74,665)***
Non-Operating Revenues				
Rents & Leases	$ 157,300	$ 173,500	$ 153,500	$ 118,488
Capital Contributions	8,052	18,152	261,406	1,154,906
Debt Service	-	-	-	-
Other Revenue	3,125	113	14,294	26,394
Total Non-Operating Revenues	$ 168,477	$ 191,765	$ 429,200	$ 1,299,788
Non-Operating Expenses				
Capital Outlay	$ 1,695	$ 57,380	$ 100,219	$ 976,422
Debt Service				
Principal	-	-	-	-
Interest	-	299	300	54
Transfers-Out	36,250	40,000	33,050	25,000
Total Non-Operating Expenses	$ 37,945	$ 97,679	$ 133,569	$ 1,001,476
Ending Balance	**$ 4,138,004**	**$ 6,845,309**	**$ 8,330,615**	**$ 8,477,061**

First Quarter Actuals as a Percentage of Budget

	2012	2013	2014	2015	4-Year Average	2015 Performance
Revenue	18%	19%	16%	30%	21%	10% (b)
Expenditures	16%	15%	11%	23%	16%	6% (c)

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

(b) A large multi-family development project brought in higher than expected capital contributions for both the City and Cascade Water Alliance (CWA).

(c) The timing of an invoice to remit fourth quarter 2014 expenses to CWA caused $719,000 in 2014 expenses to be paid in first quarter 2015.

SEWER UTILITY

	2012	2013	2014	2015	
Beginning Balance	**$ 4,177,881**	**$ 4,049,482**	**$ 4,899,110**	**$ 5,917,115**	
Operating Revenues					
Charges for Service	$ 1,571,401	$ 1,655,829	$ 1,705,779	$ 1,760,091	(a)
Other Revenue	-	-	-	-	
Total Operating Revenues	$ 1,571,401	$ 1,655,829	$ 1,705,779	$ 1,760,091	
Operating Expenses					
Maintenance & Operations	$ 1,617,706	$ 1,288,355	$ 1,662,782	$ 1,804,567	(a)
Total Operating Expenses	$ 1,617,706	$ 1,288,355	$ 1,662,782	$ 1,804,567	
Operating Income (Loss)	***(46,304)***	***367,473***	***42,997***	***(44,476)***	
Non-Operating Revenues					
Other Revenue	$ -	$ 3,500	$ 3,248	$ 4,639	
Capital Contributions	8,664	13,030	20,440	464,790	
Total Non-Operating Revenues	$ 8,664	$ 16,530	$ 23,687	$ 469,429	
Non-Operating Expenses					
Capital Outlay	$ -	$ 45,494	$ 59,909	$ 5,808	
Transfers-Out	22,500	23,750	13,900	11,250	
Total Non-Operating Expenses	$ 22,500	$ 69,244	$ 73,809	$ 17,058	
Ending Balance	**$ 4,117,741**	**$ 4,364,241**	**$ 4,891,986**	**$ 6,325,010**	

(a) Includes a 5.6% rate increase to King County METRO Sewer pass-through charges.

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's Sewer Utility customers. Actual revenue and expenses directly related to KC Metro are shown below.

KC METRO Sewer First Quarter Actuals	2012 Actual	2013 Actual	2014 Actual	2015 Actual	% Change from 2014
Operating Expenses	$ 1,183,003	$ 1,279,980	$ 1,338,522	$ 1,433,658	7%
% of All Sewer Operating Expenses	73%	99%	80%	79%	
Operating Revenue	$ 1,124,977	$ 1,198,431	$ 1,243,413	$ 1,302,544	5%
% of All Sewer Operating Revenue	72%	72%	73%	74%	

STORMWATER UTILITY

	2012	2013	2014	2015
Beginning Balance	**$ 2,718,667**	**$ 2,795,117**	**$ 2,144,286**	**$ 2,850,862**
Operating Revenues				
Charges for Service	$ 1,107,527	$ 1,109,170	$ 1,129,386	$ 1,171,563
Intergovernmental	-	-	15,628	21,705
Other Revenue	-	-	-	-
Total Operating Revenues	$ 1,107,527	$ 1,109,170	$ 1,145,015	$ 1,193,268
Operating Expenses				
Maintenance & Operations	$ 773,843	$ 765,699	$ 720,504	$ 701,441
Total Operating Expenses	$ 773,843	$ 765,699	$ 720,504	$ 701,441
Operating Income (Loss)	***333,684***	***343,470***	***424,511***	***491,827***
Non-Operating Revenues				
Intergovernmental	$ 346,921	$ 257,417	$ 20,502	$ 65,034
Capital Contributions	1,578	2,532	7,890	123,511
Other Revenue	2,813	7,009	6,748	5,956
Total Non-Operating Revenues	$ 351,311	$ 266,958	$ 35,140	$ 194,501
Non-Operating Expenses				
Capital Outlay	$ 250,459	$ 417,573	$ 84,378	$ 179,138
Transfers-Out	35,250	37,750	30,800	24,000
Total Non-Operating Expenses	$ 285,709	$ 455,323	$ 115,178	$ 203,138
Ending Balance	**$ 3,117,954**	**$ 2,950,222**	**$ 2,488,759**	**$ 3,334,052**

First Quarter Actuals as a Percentage of Budget

	2012	2013	2014	2015	4-Year Average	2015 Performance
Revenue	27%	31%	19%	20%	24%	-4% (a)
Expenditures	19%	22%	12%	12%	16%	-4% (a)

(a) For the second year, less than expected first quarter grant funding has been received. This results in lower-than-budget capital project expenses related to those grants that are postponed until the funds are acquired. Operating revenues remain relatively consistent, while operating expenses are lower due to a drier and warmer winter in the first quarter 2015.

Economic Outlook Update

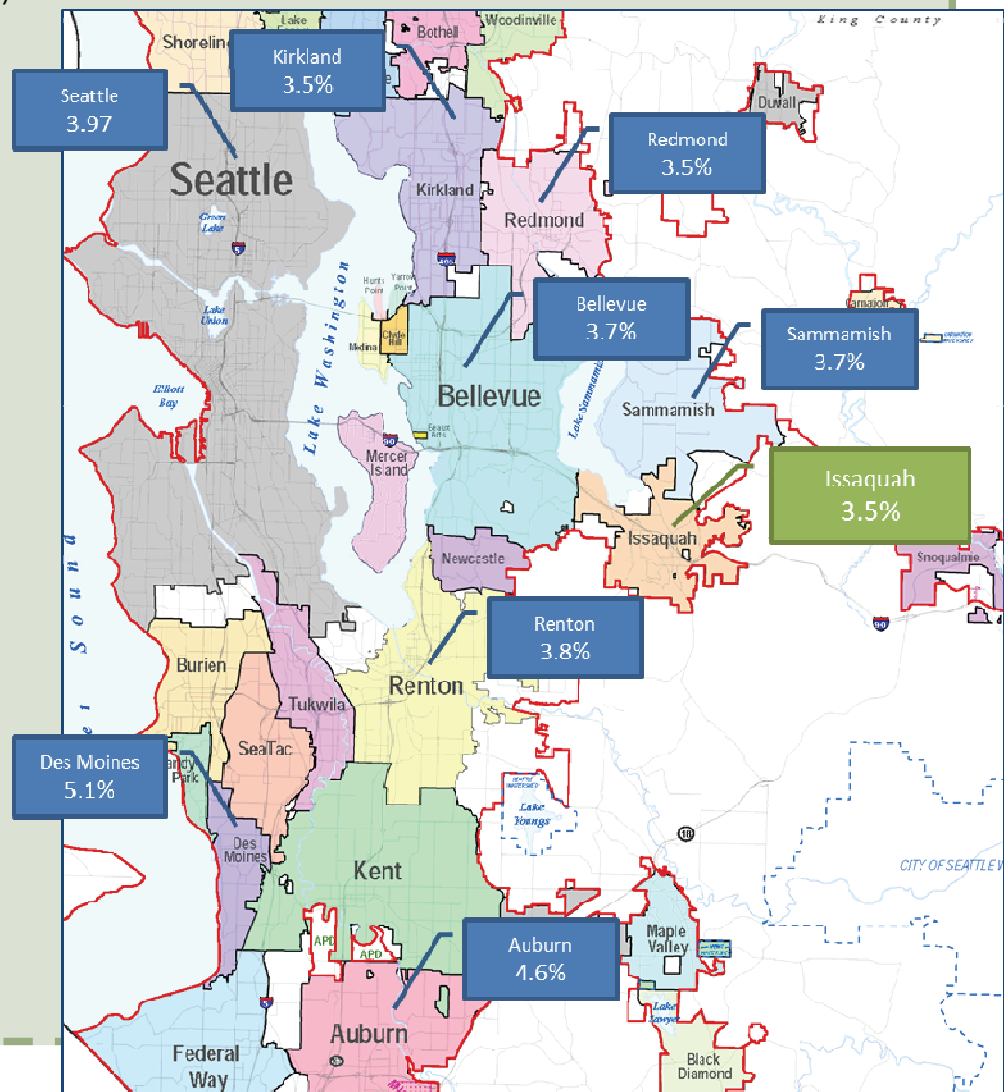
2015 Economy in Brief

- After three months of slowing, US light motor vehicle sales increased 5.6% , while Washington's sales increased 1.3% following a 1.6 % increase in February.
- New vehicle registrations in Washington totaled 292,700, seasonally adjusted annual rate (SAAR), in March, just 2.2% below the post-recession high of 299,200 in December. March registrations were up 15.5% over the year.
- Record oil inventories in the US, rising oil supplies abroad, and a strong dollar have kept petroleum price-per-barrel at or below their late February levels.
- After declining in February, the Conference Board index of consumer confidence rebounded in March, increasing by 2.5 points to 101.3. The increase in the Conference Board index was attributed to an improved short-term outlook for job and income prospects.
- Seattle home and shelter prices continue to increase.
- February inflation in the Seattle area is 1.1% higher than the previous February.
- Housing construction began the year strongly, driven mostly by multi-family construction.

Washington Employment Security Department

	March 2014	March 2015
United States		
Unemployment Rate	6.6%	5.6%
Washington		
Unemployment Rate	6.3%	6.3%
Resident Labor Force	3,465,400	3,507,100
Unemployed	217,200	220,500
Seattle/Bellevue/Everett		
Unemployment Rate	4.9%	4.6%
Resident Labor Force	159,100	1,559,700
Unemployed	76,000	71,300
Issaquah		
Unemployment Rate	4.2%	3.5%
Resident Labor Force	18,604	19,062
Unemployed	782	665

Local Area Unemployment - March 2015 (US Bureau of Labor Statistics)



State and Local Economy

Employment

Based on a Bureau of Labor Statistics survey of businesses and governments, Washington added an estimated 100,900 jobs from March

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2014 to March 2015 (not seasonally adjusted).

Private sector employment rose 3.6%, an increase of an estimated 88,900 jobs; while public sector employment increased 2.2% for a net gain of 12,000 jobs. The industry with the highest amount of jobs added is in construction, primarily in the specialty trades.

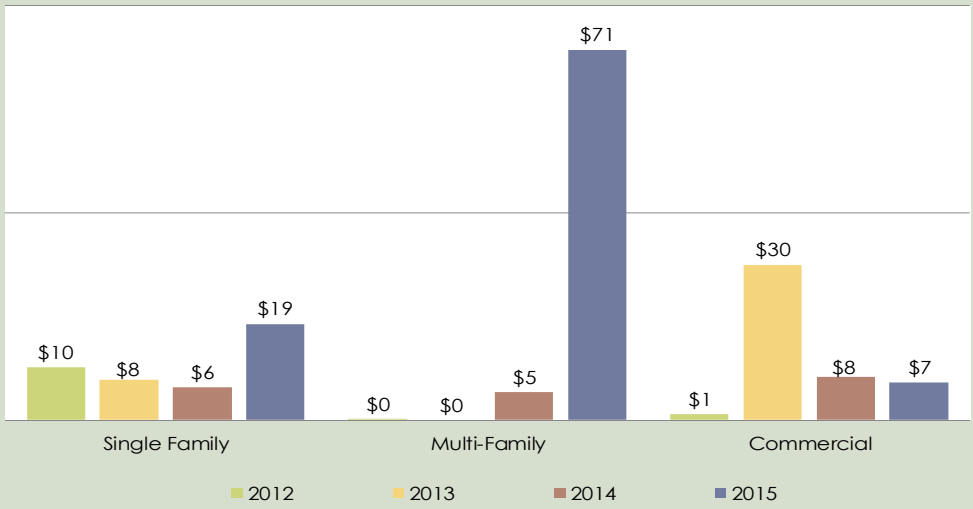
At just 3.5%, the City of Issaquah currently enjoys one of the lowest unemployment rates in the region.

(Sources: Washington State Employment Security Department, Monthly Employment Report for March 2015)

Construction

State-wide, housing construction got off to a very strong start in 2015 as the number of units soared to an average of 59,280 (SAAR) in January and February. The February forecast assumed an average of 34,400 units for the first quarter as a whole.

Valuation of Building Permits
YTD Through March 31
(in millions)



The recent construction strength should not be expected to be the new norm for two reasons:

1. First quarter winter weather was unseasonably mild; and
2. The strength was entirely in the volatile multi-family segment where the number of units permitted was 40,600 in January and February compared to the forecast of 16,000 for the entire quarter. However, the number of single-family units permitted was 18,700 for the same two months which was close to the 18,400 units expected for the quarter.

Locally, new single-family unit permitting followed a similar forward trend with permits climbing 57% from 2014 first quarter levels, and 3% above 2012's high water mark.

New multi-family permitting far surpassed the state's equivalent statistics, increasing 140% over 2014 levels, bringing in more than double

Year-to-Date Building Permit Activity in Issaquah

Permit Type	2011	2012	2013	2014	2015
Single Family:					
New	19	35	28	23	36
Alterations	16	13	11	13	21
Multi-family:					
New	0	0	0	5	12
Alterations	8	3	0	10	11
Commercial:					
New	0	2	9	3	2
Alterations	28	21	39	30	28

(Continued from page 16)

the permits than 2011, 2012, 2013 and 2014 combined. Much of this development is occurring in the Issaquah Highlands as well as the Central Issaquah Plan area.

Issaquah Residential Units Permitted in the 1st Quarter

Type of Unit	2011	2012	2013	2014	2015
Single Family	19	35	27	23	36
Multi-Family	0	0	0	21	415

Inflation

Seattle area consumer price inflation remains relatively tame, thanks mainly to falling energy costs. While the national rate was 0% over the last 12 months, Seattle's Consumer Price Index for All Urban Consumers (CPI-U) advanced 1.1% (down from 1.2% a year ago).

Over the last year, food prices in the Seattle area advanced 2.7%. Prices for food at home increased 3.2% since a year ago, and prices for food away from home rose 2%.

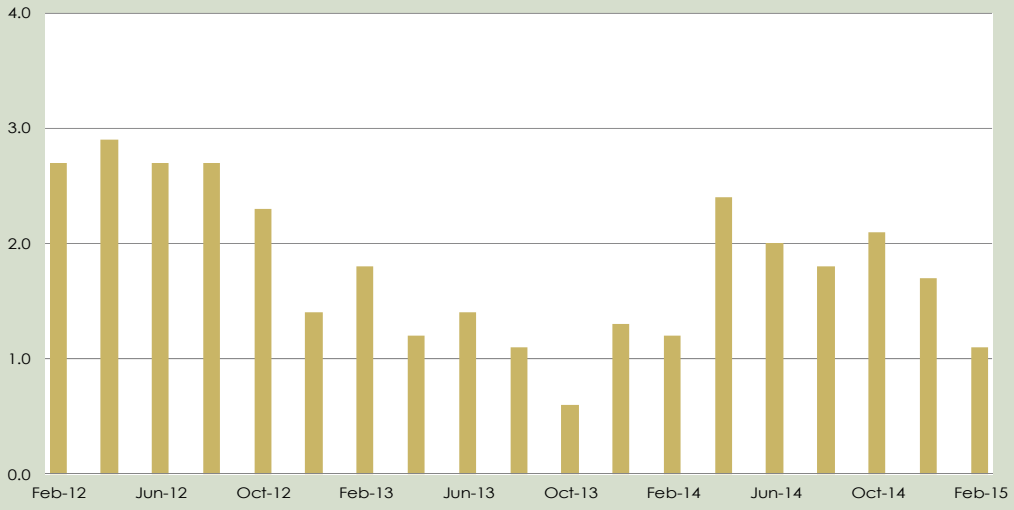
During the past year, energy prices fell 19.1%, largely due to lower prices for gasoline (-30.1%). Prices paid for natural gas service advanced 1.7%, but prices for electricity inched down 0.1%.

Migration into Washington is currently the strongest on record according to Department of Licensing data. A record 180,700 licenses were surrendered by people applying for Washington State licenses in the 12 months ending in February 2015, up 16.9% from the previous year. The previous record was in the year ending in May 1991.

During 2014, shelter costs in Seattle rose 4.7% compared to 3% for the nation. Excluding shelter costs, Seattle inflation was -0.8% over the year, well above the national rate of -1.5%.

(Sources: US Bureau of Labor Statistics, March 24, 2015 news releases for Seattle and All Cities)

Consumer Price Index (CPI-U) - Historical Trend



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

Housing

According to the S&P/Case-Shiller Home Price Indices, Seattle area home prices (SAAR) increased 0.7% in January 2015, following a 1.4% increase in December.

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Seattle area home prices have declined only once (last May) since the trough in November 2011.

The January 2015 index was 6.8% higher than the previous January and was 30.9% higher than the November 2011 trough. The steady gains in the Seattle area index have brought local home prices back to just 9.1% below the 2007 pre-recession peak.

Existing home sales in January were at their lowest level since April 2014, but were still 3.2% above their January 2014 level. January's sales decline was attributed to both a low supply of for-sale homes and rising home prices.

Number of Active Issaquah Business Licenses

2011	4,331
2012	4,715
2013	4,848
2014	5,185
2015**	5,286

***2,214 active licensees have applied for and qualified to file B&O Tax returns annually*

Risks to Economic Recovery

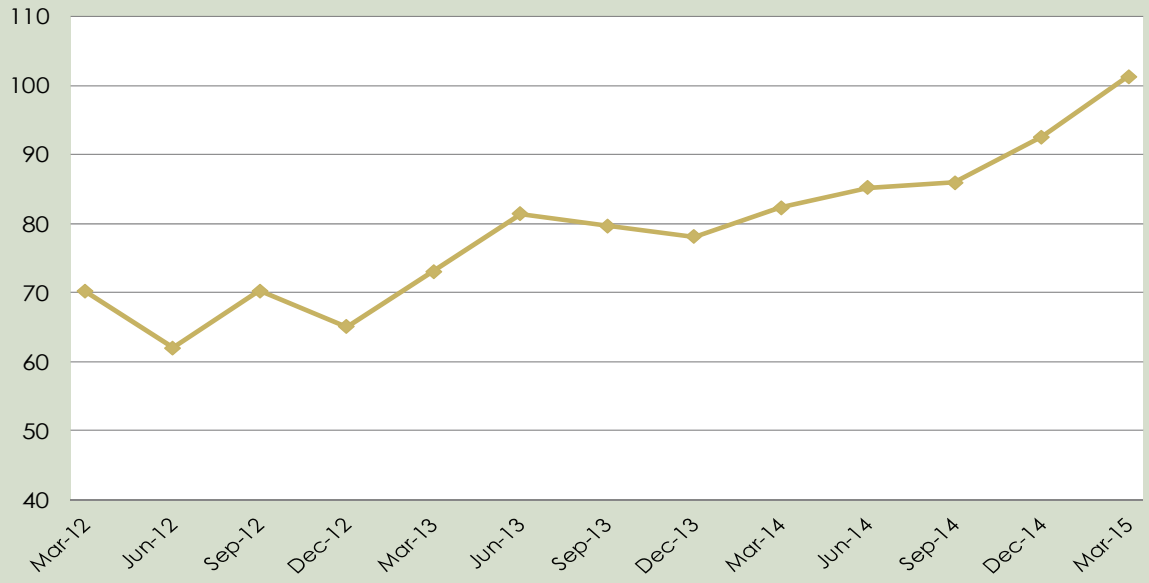
Risks to the local economy are generally from factors outside the state.

These risks include:

* **Federal Fiscal Policy**. Uncertainty over Federal policy continues to remain a drag on economic growth through lower-than-average spending. Monetary policy remains amenable, but rate increases are expected this year;
* **Weak Foreign 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 increase uncertainties.

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

Consumer Confidence - Historical Trend



Conference Board Consumer Confidence Index