CITY OF ISSAQUAH WASHINGTON

2015 Second Quarter Financial Status Report

AT A GLANCE:

- **The warm winter and spring have had a negative effect on natural gas and electricity utility taxes.**
- **Sales tax, as a whole, is 25% higher than second quarter of 2014; with construction-related sales tax up 69%.**
- **Development activity remains strong - with residential activity surpassing 2014 year-to-date activity through the second quarter of 2015.**

INSIDE:

General Fund Highlights	2
General Fund Revenue	6
General Fund Expenditures	8
Utility Funds Performance	10
Utility Funds 4yr Comparison	12
Economic Outlook	15

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 June 30, 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.

Paragliders from Poo Poo Point

Performance at a Glance

	Year-to-Date Performance	Compared to Budget
General Fund Expenditure vs. Budget	Neutral	1%
General Fund Revenue vs. Budget	Neutral	1%
Tax Revenue Performance	Positive	2%
Utility Funds Expenditures vs. Budget	Warning	17%
Utility Funds Revenues vs. Budget	Positive	12%

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 July 27, 2015

General Fund: 2015 Second Quarter Performance

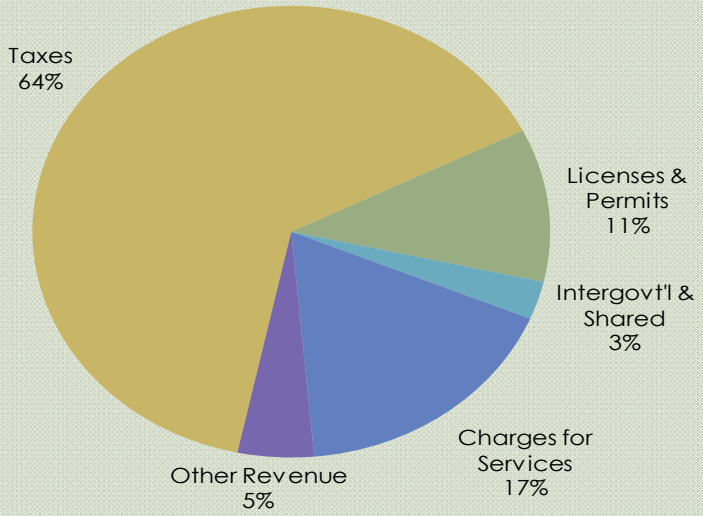
Revenue Highlights

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 June 30, total General Fund revenue finished at $19,618,562, at 51% 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 second quarter of 2015 compared to the same period in 2014; with Sales Tax and Jail Services showing significant gains of 25% and 22% respectively.

General Fund Actual Revenue by Source



Only two major revenue sources reported less revenue comparatively - Utility Taxes and Recreation Fees.

Taxes

Sales Tax (+25%)

Sales Tax is the largest source of tax revenue for the City and is highly reliant on the local economy. Second quarter 2015 saw a 25% gain in sales tax over 2014, largely due to construction-related sales tax. Sales tax is explored further on *Page 7*.

Property Tax (+3%)

Property Tax represents the second largest source of tax revenue for the City and showed an increase of 3% for 2015 over second quarter of 2014, and is right on target for the four-year average.

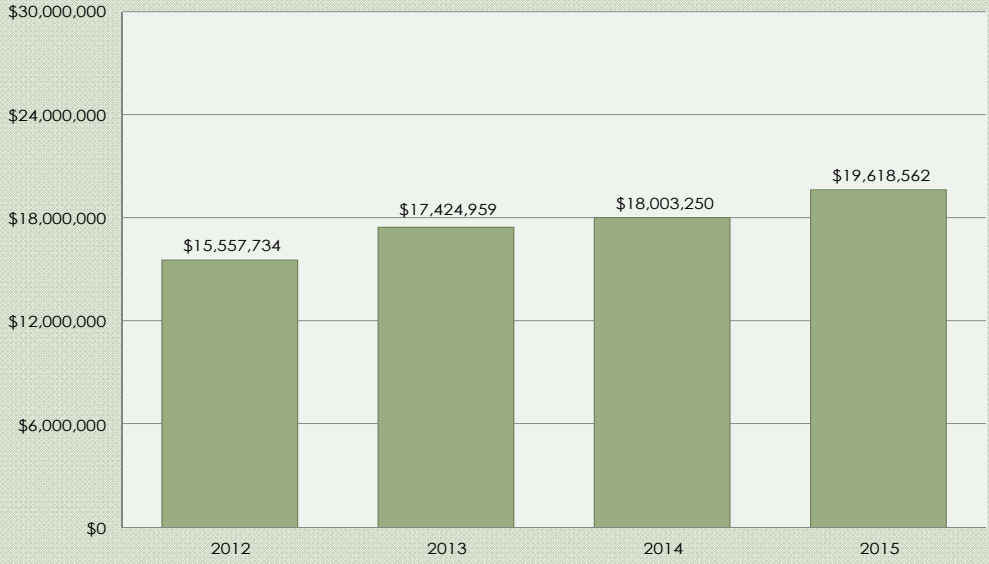
Utility Taxes (-7%)

Utility taxes are the third largest source of General Fund revenue, comprising 13% of all general fund revenue received for second quarter 2015.

Utility taxes are levied on the

(Continued on page 3)

General Fund Actual Revenue Received
Through June 30



General Fund Major Revenue Sources - Actual Revenue Received

Through the Quarter Ended June 30

Revenue Source	2012 Actual	2013 Actual	2014 Actual	2015 Actual	% Change From 2014
Sales Tax	$ 3,334,301	$ 3,907,021	$ 3,849,965	$ 4,825,186	25%
Property Tax	3,585,314	3,718,493	3,979,159	4,103,337	3%
Utility Taxes	2,385,952	2,434,275	2,383,508	2,219,677	-7%
Development Fees	1,007,320	2,090,189	2,113,077	2,396,293	13%
B&O Tax	1,121,523	1,226,735	1,251,741	1,332,334	6%
Recreation Fees	1,055,649	1,140,348	1,182,990	812,819	-31%
Jail Services	702,395	665,393	682,229	832,274	22%
Court Fines/Fees	577,119	449,350	553,361	579,798	5%

(Continued from page 2)

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 7% dip in utility taxes in second quarter 2015 can be attributed to the unusually mild winter and spring experienced in the Pacific Northwest. This resulted in decreased consumption of natural gas and electricity, and less utility tax revenue.

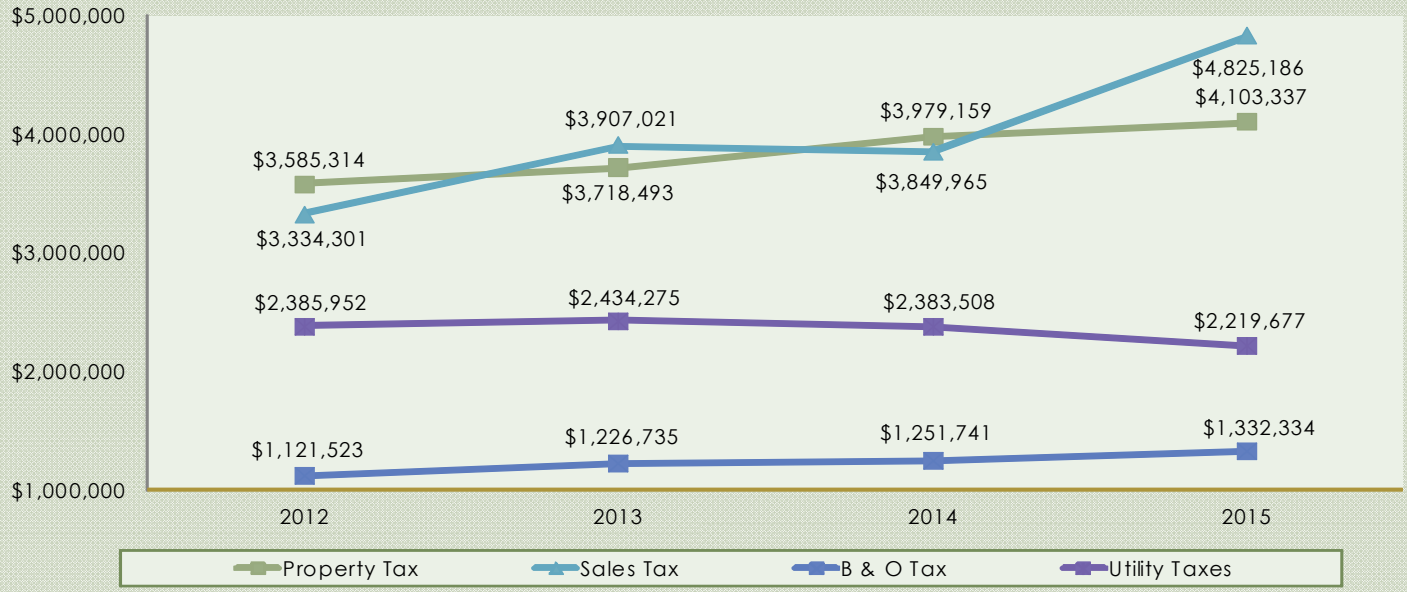
B & O Tax (+6%)

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 than $100,000 annually in the fiscal year.

In 2014 there were 1,412 business filing annual B&O tax returns. As a result of legislative changes, in the second quarter of 2015 alone,

(Continued on page 4)

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



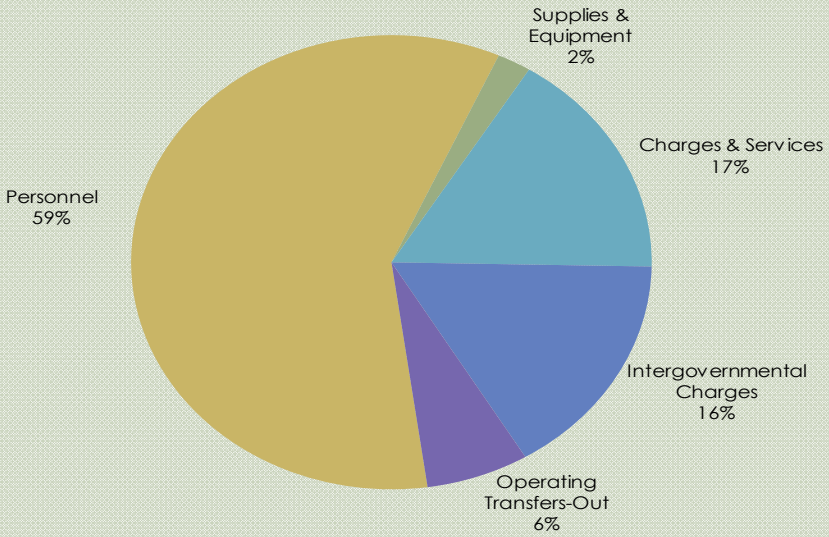
General Fund: 2015 Second Quarter Performance (cont.)

(Continued from page 3)

2,289 businesses registered and qualified to file their B&O taxes annually.

The 6% increase in second quarter 2015 B&O revenue over 2014 is another reflection of the increased construction activity taking place in Issaquah.

General Fund Actual Expenditures by Type



Other Major Revenue

Development Fees (+13%)

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 implementing the Central Issaquah Plan as well as continuing development in the Issaquah Highlands contributes to the increase in 2015 permit revenue compared 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 (-31%)

Recreation fees include the fees paid to participate in Parks Department recreation and aquatics programs. The 31% decrease in fees received in second 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.

When examining the four-year trend revenue received for recreation classes (not including aquatics program fees), 2015 year-to-date revenue is actually 2% higher than the four-year average.

(Continued on page 5)

General Fund - Actual Expenditures & Revenue

Through the Quarter Ended June 30

General Fund	2012 Actual	2013 Actual	2014 Actual	2015 Actual	*% Change From 2014*
Revenue	$ 15,557,734	$ 17,424,959	$ 18,003,250	$ 19,618,562	9%
Expenditures	15,272,690	17,685,837	18,081,501	18,979,192	5%
Difference	**$ 285,044**	**$ (260,878)**	**$ (78,251)**	**$ 639,370**	

(Continued from page 4)

Jail Services (+22%)

Jail Services 2015 revenue received increased 22% over second quarter 2014, and is 8% above the four-year average. 2015 represents the highest second quarter revenue collected since 2011'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 (+5%)

Court Fines/Fees revenue is up 5% from 2014 revenue. This reflects a gradual levelling of revenue collected in this category after the enormous increase in 2014 compared to 2013.

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; along with City management.

Year-to-date expenditures as of June 30 are $18,979,192; 49% of the 2015 budgeted amount. This figure is 5% greater than second quarter 2014 and consistent with the four-year average.

A snapshot of 2015 second quarter General Fund 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 June 30

Department Name	Budget	Actual for the 1st Quarter	Year-to-Date Actual	Year-to-Date % of Budget
City Council	$ 86,300	$ 17,377	$ 46,771	*54%*
Municipal Court	895,500	220,668	455,506	*51%*
Executive	816,000	189,136	412,562	*51%*
Finance	1,028,150	257,658	541,427	*53%*
Legal	607,000	160,724	260,511	*43%*
Support Svcs & Systems	463,500	108,113	242,002	*52%*
Human Resources	383,750	90,618	191,690	*50%*
Information Technology	656,300	215,601	381,911	*58%*
City Clerk	303,450	43,923	115,876	*38%*
Police	9,483,200	2,220,207	4,917,444	*52%*
Fire	5,835,700	1,451,302	2,902,605	*50%*
Communications	304,050	65,454	143,760	*47%*
Human Services	843,200	238,927	290,294	*34%*
Development Services	5,310,640	1,272,727	2,572,299	*48%*
Economic Development	676,800	159,044	335,235	*50%*
Parks & Recreation	7,482,000	1,676,603	3,475,202	*46%*
Other General Govt'l	3,588,750	827,018	1,694,098	*47%*
Total GF Departments	**$ 38,764,290**	**$ 9,215,100**	**$ 18,979,192**	*49%*

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	$ 3,761,489	$ 4,103,337	53%
Sales Tax	8,752,000	2,354,138	4,825,186	55%
Business & Occupation Tax	3,606,000	663,802	1,332,334	37%
Utility Taxes	4,875,000	1,281,869	2,219,677	46%
Other Taxes	220,600	56,984	128,016	58%
Total Taxes	*25,187,600*	*8,118,283*	*12,608,550*	*50%*
Building/Development Fees	$ 3,607,840	$ 788,417	$ 1,968,076	55%
Business Licenses	274,000	73,902	151,221	55%
Other Licenses/Permits	17,700	27,174	34,815	197%
Total Licenses & Permits	*3,899,540*	*889,492*	*2,154,112*	*55%*
Federal Grants	$ 130,000	$ 249	$ 27,036	21%
State & Local Grants	5,000	-	-	0%
Sales Tax Mitigation	560,000	143,200	285,476	51%
Criminal Justice (State)	44,600	11,475	22,952	51%
Liquor	377,400	92,491	180,893	48%
Misc Intergov'tl/Shared	-	5,000	15,000 (a)	
Total Intergovt'l/Shared	*1,117,000*	*252,414*	*531,357*	*48%*
Jail Services/Fees	1,501,500	426,534	832,274	55%
Court Fees & Fines	1,138,100	321,590	579,798	51%
Recreation/Pool Fees	2,068,400	296,526	812,819	39%
Engineering/Inspection	950,700	215,570	428,217	45%
Dispatch Services	580,000	142,552	279,528	48%
Other Fees & Charges	955,800	205,931	460,053	48%
Total Charges for Services	*7,194,500*	*1,608,703*	*3,392,689*	*47%*
Investment Interest	$ 168,100	$ 21,788	$ 78,101	46%
Rents & Leases	832,000	225,033	470,199	57%
Other Miscellaneous Revenue	50,000	73,108	84,503	169%
Total Miscellaneous Revenue	*1,050,100*	*319,929*	*632,802*	*60%*
Operating Transfers-In	$ 302,500	$ 75,875	$ 151,750	50%
Misc Other Sources	-	122,304	147,302	
Total from Other Sources	*302,500*	*198,179*	*299,052*	*99%*
Total General Fund Revenue	**$ 38,751,240**	**$ 11,387,000**	**$ 19,618,562**	***51%***

(a) One-time 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 General Fund sales tax revenue collected through June 30, 2015, is $4,825,186, or 55% of the total amount budgeted for retail sales tax. In comparison to 2014, the City received $975,221, or 25% more in retail sales tax in 2015.

Major Tax Category Performance

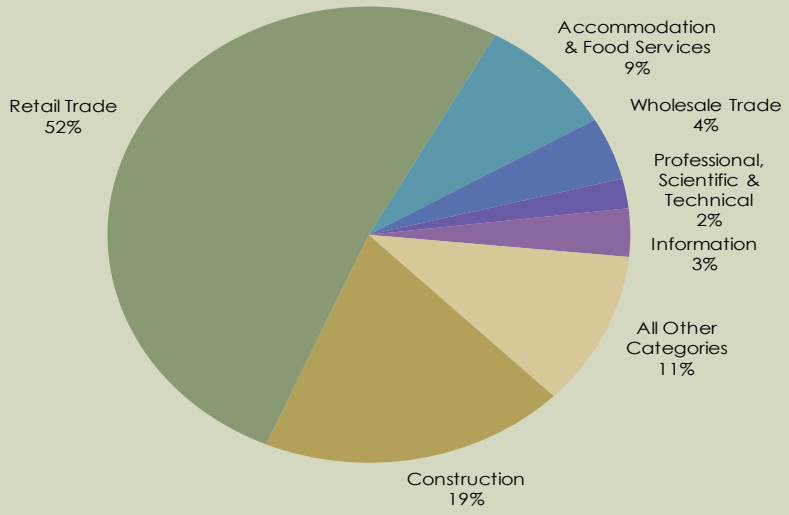
The City of Issaquah receives the majority of its retail sales tax, 71%, from two categories: Retail Trade at 52% and Construction at 19%. While Retail Trade-related sales tax increased 26%, Construction-related sales tax for 2015 was 69% higher than that received second quarter of 2014; the highest since 2011.

In 2011, the City received $1,563,973 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.

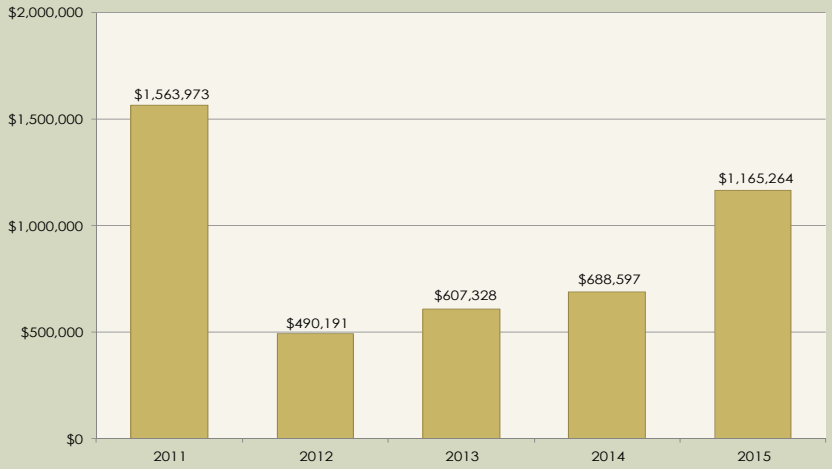
Higher than budgeted development revenue throughout 2014, and for the second quarter 2015, leads to an expectation of a continued surge in construction-related sales tax in 2015.

Sales Tax Categories



Retail Trade
Year-to-Date Received Through 2nd Quarter

Construction
Year-to-Date Received Through 2nd Quarter



General Fund: Department Expenditures

Overall, actual 2015 expenditures for the General Fund departments ended the second quarter 7% higher than second quarter 2014. Thirteen out of seventeen General Fund departments finished the second 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 second quarter 2014 expenditures are illustrated below and explained on the next page.

General Fund Expenditures - Four-Year Comparison

Through the Quarter Ended June 30

Department	2012 Actual	2013 Actual	2014 Actual	2015 Actual	% Change From 2014	
City Council	$ 38,692	$ 38,875	$ 46,805	$ 46,771	0%	
Municipal Court	321,297	394,139	414,734	455,506	10%	(a)
Executive	446,459	650,191	374,893	412,562	10%	(b)
Finance	436,715	607,582	476,192	541,427	14%	(c)
Legal	231,930	234,320	201,468	260,511	29%	(d)
Support Svcs & Systems	-	-	179,170	242,002	35%	(e)
Human Resources	220,121	169,586	172,646	191,690	11%	(f)
Information Technology	474,558	357,838	317,392	381,911	20%	(g)
City Clerk	147,116	171,915	137,861	115,876	-16%	(h)
Police	3,944,354	4,225,626	4,768,087	4,917,444	3%	
Fire	1,961,305	2,528,230	2,636,160	2,902,605	10%	(i)
Communications	-	108,019	129,750	143,760	11%	(j)
Human Services	172,509	201,610	249,441	290,294	16%	(k)
Development Services	1,592,306	2,535,397	2,799,763	2,572,299	-8%	(l)
Economic Development	-	247,920	326,105	335,235	3%	
Parks & Recreation	3,456,698	3,405,152	3,647,846	3,475,202	-5%	
Other General Govt'l	1,828,628	1,809,439	1,203,190	1,694,098	41%	(m)
Total GF Departments	**$ 15,272,690**	**$ 17,685,837**	**$ 18,081,501**	**$ 18,979,192**	**5%**	

General Fund: Department Expenditures (cont.)

Explanation of Significant % Variance of Budget Expended

(a) **Municipal Court +10%** - The increase in 2015 second quarter expenditures 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.

(b) **Executive +10%** - The increase in 2015 second quarter expenditures compared to 2014 is because a position that was vacant in 2014 has now been filled.

(c) **Finance +14%** - The increase in 2015 over 2014 can be attributed to the payment of Munis software maintenance.

(d) **Legal +29%** - The increase in 2015 second quarter legal expenses is directly linked to an increase in general municipal services related to the increase in development activity.

(e) **Support Services & Systems +35%** - 2015 second 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.

(f) **Human Resources +11%** - 2015 second quarter expenses increased due to a position reclassification to a higher compensation level.

(g) **Information Technology +20%** - The 20% increase in 2015 over 2014 is due to the financial compensation of a retiring senior staff member.

(h) **City Clerk -16%** - The 2015 decrease is due to vacancy of the Administrative Assistant position.

(i) **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.

(j) **Communications +11%** - 2015 costs increased as a result of staff promotions.

(k) **Human Services +16%** - The 2015 budget was increased by 17% over 2014, so this cost is on track.

(l) **Development Services -8%** - 2015's second quarter decrease is due to staff vacancies in 2015 compared to second quarter of 2014.

(m) **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;*
- *Professional Services costs related to the annexation of Lake Sammamish State Park.*
- *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 Second 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 of the three utilities (Water, Sewer and Stormwater) have been combined.

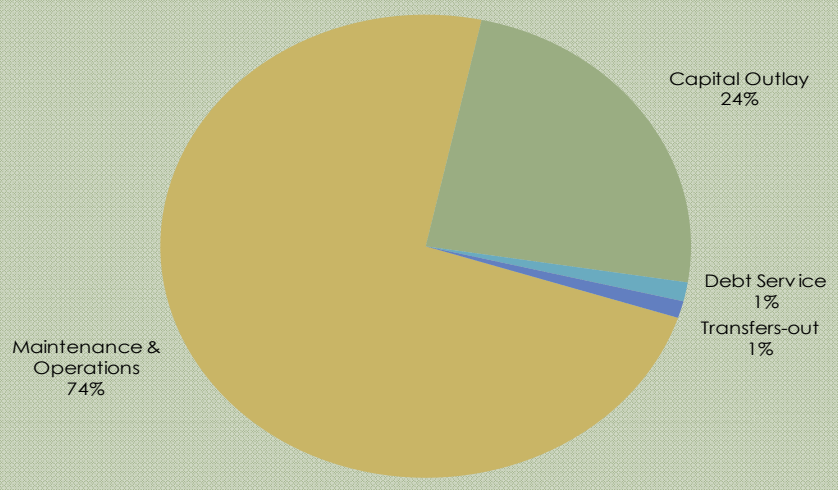
Expenses

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 combined 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 June 30, 2015, all utility expenses ended 12% higher than the four-year average. Non-operating costs in the Water utility, and operating expenses in the Sewer utility caused their budget-to-actual expenses to end the quarter above the four-year average.

Utility Funds - Year to Date Expenses by Category



2015 second quarter Water expenses finished at 45% 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) that the City then remits back to them.

The 5% increase from 2014 to 2015 in Sewer operating expenses is tied, in large part, to the increase in King County METRO sewage treatment costs which are pass-through costs.

Second quarter Stormwater expenses finished at 24% of budget; 6% less than the four-year average as a result of the 2015 budget for Stormwater funds being 12% higher than the 2014 budgeted amount.

Revenue

The majority of second quarter utility revenue, 73%, 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 27% 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 whole, finished 17% 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.

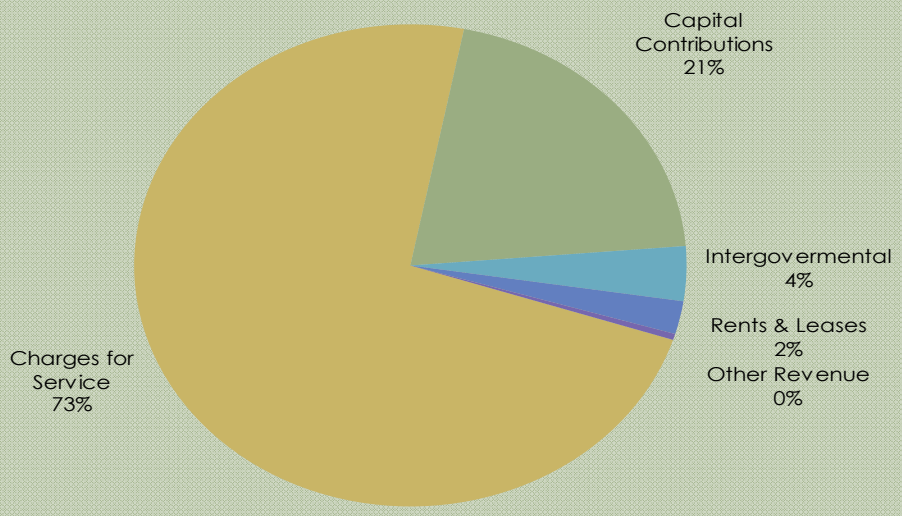
(Continued on page 11)

(Continued from page 10)

Second quarter revenue for the Water funds is running 13% higher than the four-year average, while Sewer funds revenue is 8% 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, second 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.

Utility Funds - Year to Date Revenue by Source



Charges for Service actually finished second quarter 6% higher than second quarter 2014.

	Water		Sewer		Stormwater	
	Budget	**Year-to-Date**	**Budget**	**Year-to-Date**	**Budget**	**Year-to-Date**
Beginning Balance	**$ 9,158,283**	**$ 8,251,784**	**$ 5,114,762**	**$ 5,852,061**	**$ 2,574,796**	**$ 2,851,544**
Operating Revenues						
Charges for Service	$ 6,237,000	$ 2,709,125	$ 7,701,500	$ 3,870,330	$ 4,455,000	$ 2,250,535
Intergovernmental	-	-	-	-	-	24,361
Other Revenue	1,500	500	-	-	-	-
Total Operating Revenues	$ 6,238,500	$ 2,709,625	$ 7,701,500	$ 3,870,330	$ 4,455,000	$ 2,274,896
Operating Expenses						
Maintenance & Operation	5,344,700	2,550,204	7,187,300	3,587,166	3,180,155	1,369,014
Total Operating Expenses	5,344,700	2,550,204	7,187,300	3,587,166	3,180,155	1,369,014
Operating Income (Loss)	***$ 893,800***	***$ 159,421***	***$ 514,200***	***$ 283,165***	***$ 1,274,845***	***$ 905,882***
Non-Operating Revenues						
Intergovernmental	$ -	$ -	$ -	$ -	$ 2,141,400	$ 417,929
Capital Contributions	1,800,000	1,741,128	55,000	580,891	276,000	165,626
Rents & Leases	513,950	266,975	-	-	-	-
Other Revenue	17,000	33,957	56,000	5,176	186,000	9,871
Total Non-Operating Revenues	$ 2,330,950	$ 2,042,060	$ 111,000	$ 586,067	$ 2,603,400	$ 593,426
Non-Operating Expenses						
Capital Outlay	$ 4,444,900	$ 2,099,477	$ 211,625	$ 19,429	$ 3,762,640	$ 347,261
Debt Service						
Principal	495,000	-	-	-	361,300	61,291
Interest	144,500	72,029	-	-	18,600	2,247
Transfers-Out	100,000	50,000	45,000	22,500	141,000	48,000
Total Non-Operating Expenses	$ 5,184,400	$ 2,221,506	$ 256,625	$ 41,929	$ 4,283,540	$ 458,800
Ending Balance	**$ 7,198,633**	**$ 8,231,759**	**$ 5,483,337**	**$ 6,679,363**	**$ 2,169,501**	**$ 3,892,052**

Actual Expenses & Revenue[a] Four-Year Comparison thru June 30

WATER UTILITY

	2012	2013	2014	2015
Beginning Balance	**$ 4,274,401**	**$ 6,807,223**	**$ 8,037,181**	**$ 8,251,784**
Operating Revenues				
Charges for Service	$ 2,201,178	$ 2,510,189	$ 2,570,779	$ 2,709,125 (b)
Other Revenue	450	850	600	500
Total Operating Revenues	$ 2,201,628	$ 2,511,039	$ 2,571,379	$ 2,709,625
Operating Expenses				
Maintenance & Operations	$ 2,312,947	$ 2,358,510	$ 2,300,804	$ 2,550,204
Total Operating Expenses	$ 2,312,947	$ 2,358,510	$ 2,300,804	$ 2,550,204
Operating Income (Loss)	***(111,319)***	***152,529***	***270,575***	***159,421***
Non-Operating Revenues				
Rents & Leases	$ 316,800	$ 332,000	$ 322,000	$ 266,975
Capital Contributions	36,234	303,525	950,140	1,741,128
Debt Service	-	-	-	-
Other Revenue	16,614	10,471	20,801	33,957
Total Non-Operating Revenues	$ 369,648	$ 645,996	$ 1,292,941	$ 2,042,060
Non-Operating Expenses				
Capital Outlay	$ 64,269	$ 237,569	$ 462,650	$ 2,099,477 (c)
Debt Service				
Principal	-	-	-	-
Interest	98,525	89,324	79,475	72,029
Transfers-Out	72,500	80,000	66,100	50,000
Total Non-Operating Expenses	$ 235,294	$ 406,893	$ 608,225	$ 2,221,506
Ending Balance	**$ 4,297,436**	**$ 7,198,854**	**$ 8,992,472**	**$ 8,231,759**

Second Quarter Actuals as a Percentage of Budget

	2012	2013	2014	2015	4-Year Average	2015 Performance
Revenue	38%	40%	37%	55%	43%	13%
Expenditures	30%	30%	23%	45%	32%	13%

(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), as well as a drier than usual spring contributing to an increase in charges for services of $250,000 compared to second quarter 2014.

(c) CWA expenses were increased due to the pass-through nature of the capital contributions collected on its behalf.

SEWER UTILITY

	2012	2013	2014	2015	
Beginning Balance	**$ 4,177,881**	**$ 4,049,482**	**$ 4,899,110**	**$ 5,852,061**	
Operating Revenues					
Charges for Service	$ 3,293,679	$ 3,614,071	$ 3,679,857	$ 3,870,330	(a)
Other Revenue	-	(344)	-	-	
Total Operating Revenues	$ 3,293,679	$ 3,613,727	$ 3,679,857	$ 3,870,330	
Operating Expenses					
Maintenance & Operations	$ 3,082,517	$ 2,884,321	$ 3,287,588	$ 3,587,166	(a)
Total Operating Expenses	$ 3,082,517	$ 2,884,321	$ 3,287,588	$ 3,587,166	
Operating Income (Loss)	***211,162***	***729,406***	***392,269***	***283,165***	
Non-Operating Revenues					
Other Revenue	$ -	$ 3,500	$ 2,907	$ 5,176	
Capital Contributions	33,160	31,026	35,061	580,891	
Total Non-Operating Revenues	$ 33,160	$ 34,526	$ 37,967	$ 586,067	
Non-Operating Expenses					
Capital Outlay	$ 3,013	$ 104,300	$ 101,224	$ 19,429	
Transfers-Out	45,000	47,500	27,800	22,500	
Total Non-Operating Expenses	$ 48,013	$ 151,800	$ 129,024	$ 41,929	
Ending Balance	**$ 4,374,190**	**$ 4,661,614**	**$ 5,200,322**	**$ 6,679,363**	

(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 Second Quarter Actuals	2012 Actual	2013 Actual	2014 Actual	2015 Actual	% Change from 2014
Operating Expenses	$ 2,364,870	$ 2,576,216	$ 2,680,762	$ 2,878,358	7% (a)
% of All Sewer Operating Expenses	77%	89%	82%	80%	
Operating Revenue	$ 1,124,977	$ 1,198,431	$ 1,243,413	$ 1,302,544	5% (a)
% of All Sewer Operating Revenue	34%	33%	34%	34%	

STORMWATER UTILITY

	2012	2013	2014	2015
Beginning Balance	**$ 2,718,667**	**$ 2,795,117**	**$ 2,144,286**	**$ 2,851,544**
Operating Revenues				
Charges for Service	$ 2,086,073	$ 2,115,321	$ 2,122,280	$ 2,250,535
Intergovernmental	-	-	28,416	24,361
Other Revenue	1,000	150	720	-
Total Operating Revenues	$ 2,087,073	$ 2,115,471	$ 2,151,416	$ 2,274,896
Operating Expenses				
Maintenance & Operations	$ 1,372,977	$ 1,457,090	$ 1,366,341	$ 1,369,014
Total Operating Expenses	$ 1,372,977	$ 1,457,090	$ 1,366,341	$ 1,369,014
Operating Income (Loss)	***714,097***	***658,381***	***785,076***	***905,882***
Non-Operating Revenues				
Intergovernmental	$ 449,325	$ 279,002	$ 62,684	$ 417,929
Capital Contributions	7,101	8,055	54,778	165,626
Other Revenue	5,313	(3,376)	6,065	9,871
Total Non-Operating Revenues	$ 461,738	$ 283,681	$ 123,527	$ 593,426
Non-Operating Expenses				
Capital Outlay	$ 434,374	$ 619,936	$ 143,387	$ 347,261
Transfers-Out	70,500	75,500	61,600	48,000
Total Non-Operating Expenses	$ 570,456	$ 760,405	$ 204,987	$ 458,800
Ending Balance	**$ 3,324,046**	**$ 2,976,773**	**$ 2,847,902**	**$ 3,892,052**

Second Quarter Actuals as a Percentage of Budget

	2012	2013	2014	2015	4-Year Average	2015 Performance
Revenue	46%	54%	36%	41%	44%	-4% (a)
Expenditures	35%	39%	23%	24%	31%	-6% (a)

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

Economic Outlook Update

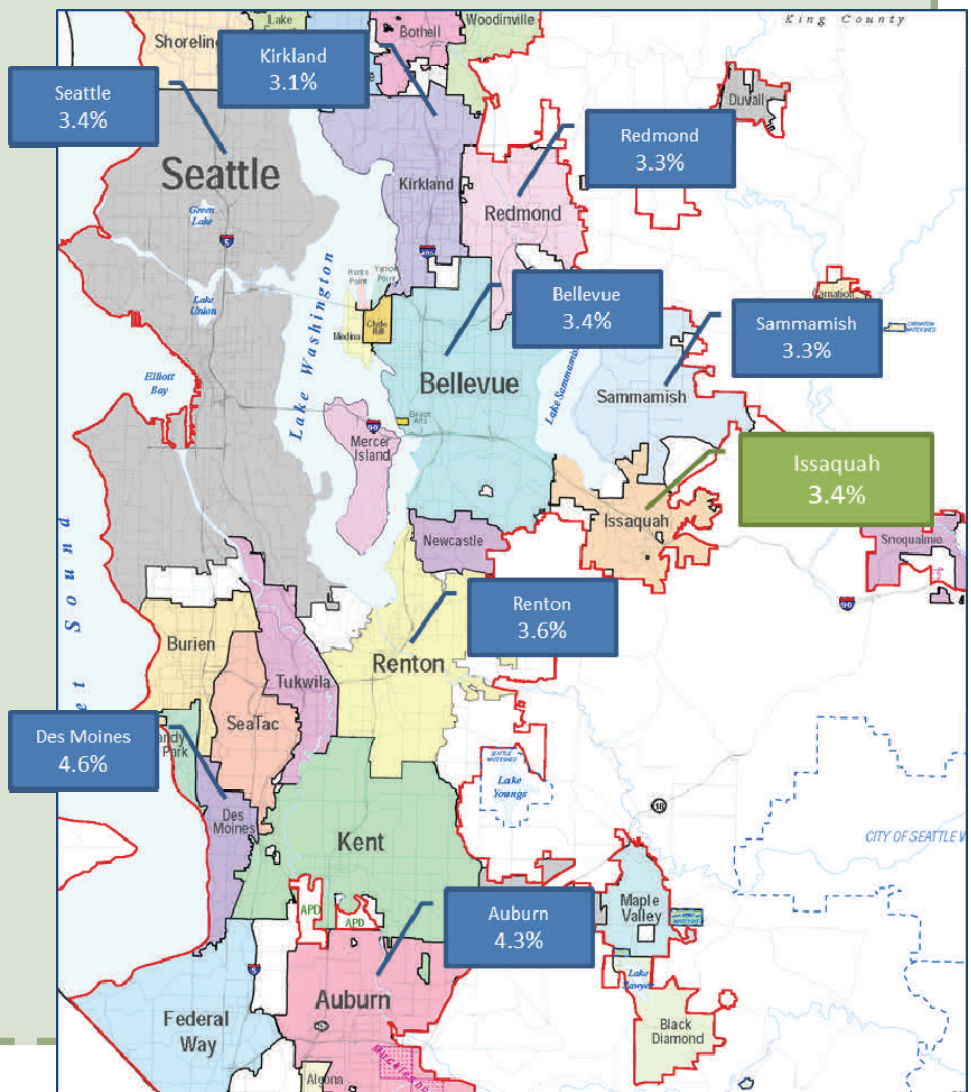
2015 Economy in Brief

* The national economy slowed considerable in the second quarter, contracting 0.7% seasonally adjusted annual rate (SAAR) after a 2.2% (SAAR) increase in the fourth quarter of 2014. Severe winter weather, port strikes and declining oil prices all serve to drag down economic growth.
* Nationally, home prices have increased 26.3% since the lowest point of the recession but remain 14% below their peak; while Seattle area home prices have increased 35.6%, which is only 5.8% lower than their peak.
* Recovery from the 2007-09 recession is forecasted to be the longest on record at 42 quarters (third quarter 2009 through the end of the Washington State Economic and Revenue Forecast Council (ERFC) forecast for 2019).
* After a moderate improvement in May, the Conference Board index of consumer confidence increased further in June, increasing by 6.8 points to 101.4. The increase in the Conference Board index could lead to a willingness to spend more in the near-term.
* April inflation in the Seattle area is 2.0% lower than the previous April.
* Housing construction began the year strongly, driven mostly by multi-family construction.

	June 2014	June 2015
United States		
Unemployment Rate	6.1%	5.3%
Washington		
Unemployment Rate	5.8%	5.3%
Resident Labor Force	3,473,300	3,544,900
Unemployed	201,000	187,300
Seattle/Bellevue/Everett		
Unemployment Rate	4.8%	3.9%
Resident Labor Force	1,560,100	1,581,400
Unemployed	74,800	60,900
Issaquah		
Unemployment Rate	3.7%	3.4%
Resident Labor Force	18,771	19,704
Unemployed	790	643

Washington Employment Security Department

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



State and Local Economy

Employment

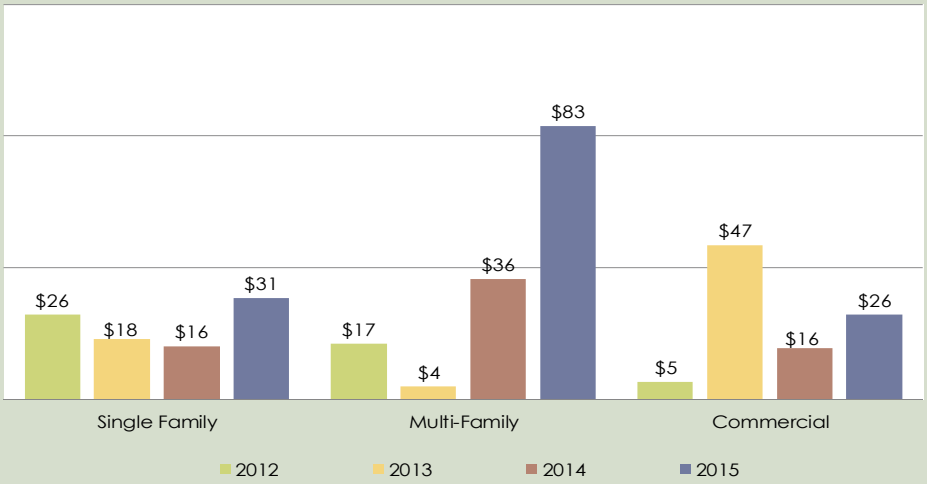
Based on a Bureau of Labor Statistics survey of businesses and governments, Washington added an

(Continued on page 16)

(Continued from page 15)

estimated 114,700 jobs from June 2014 to June 2015 (not seasonally adjusted).
The private sector added an estimated 100,900 jobs; while the public sector gained 13,800 jobs. The industry with the highest amount of jobs added is professional and business services, followed closely by construction (primarily in the specialty trades).

Valuation of Building Permits
YTD Through June 30
(in millions)



At 3.4%, the City of Issaquah finds itself in the middle of the pack for unemployment rates for cities located near Seattle, with Kirkland being the lowest at 3.1%.

(Sources: US Bureau of Labor Statistics and Washington State Employment Security Department, Monthly Employment Report for June 2015)

Year-to-Date Building Permit Activity in Issaquah

Permit Type	2011	2012	2013	2014	2015
Single Family:					
New	73	94	62	44	61
Alterations	41	36	34	30	42
Multi-family:					
New	3	1	3	15	20
Alterations	17	13	1	10	42
Commercial:					
New	2	3	14	6	3
Alterations	59	45	73	56	55

Construction

State-wide, housing construction got off to a very strong start in 2015 as the number of units authorized by building permits soared to 53,600 (SAAR) in the first quarter of 2015, the highest quarterly rate since the first quarter of 2007.

The second quarter appears to be headed for a more sustainable level. Permits in April and May averaged 36,200 units (SAAR) 19,200 of which were single-family units and 17,000 were multi-family units. The June forecast predicted an average rate of 37,400 for the second quarter as a whole.

Locally, new single-family unit permitting followed a similar trend with permits climbing 19% from 2014 second quarter levels, but down 58% from 2012's high water mark.

Issaquah Residential Units Permitted in the 2nd Quarter

Type of Unit	2011	2012	2013	2014	2015
Single Family	54	57	32	22	25
Multi-Family	5	85	14	198	41

Second quarter new multi-family permit activity declined 2% from 2014 levels. While the number of units authorized by those permits plummeted

(Continued on page 17)

(Continued from page 16)

79% for the quarter, year-to-date numbers for 2015 compared to 2014 are up 108%. Much of this development is occurring in the Issaquah Highlands as well as the Central Issaquah Plan area.

Inflation

Seattle area consumer price inflation remains relatively tame, thanks mainly to falling energy costs. While the national rate was -0.2% over the last 12 months, Seattle's Consumer Price Index for All Urban Consumers (CPI-U) advanced 0.4% (down from 2.4% a year ago).

Core prices, which exclude food and energy, were up 2.0% in Seattle compared to 1.8% for the nation.

Number of Active Issaquah Business Licenses

2011	4,331
2012	4,715
2013	4,772
2014	5,078
2015**	5,430

***2,289 active licensees file B&O Tax returns annually, compared to 1,412 annual filers in 2014.*

The higher Seattle inflation is due to more rapid growth in shelter costs. Since April 2014, shelter costs in Seattle rose 4.7% compared to 3.0% for the nation

Seattle area housing prices in March are only 5.8% lower than the pre-recession peak.

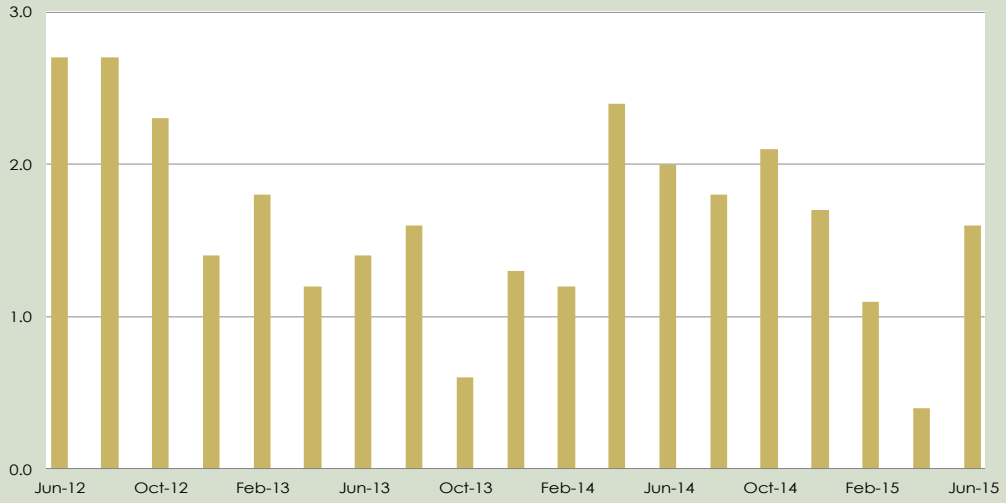
Over the last year, food prices in the Seattle area advanced 1.5%. Prices for food at home increased 0.9% since a year ago, and prices for food away from home rose 2.4%.

During the past year, energy prices fell 18%, largely due to lower prices for gasoline (-27.7%). Prices paid for natural gas service advanced 1.7%, but prices for electricity rose 0.5%.

Excluding shelter costs, Seattle inflation was -1.8% over last year, even lower than the national rate of -1.6%.

(Source: US Bureau of Labor Statistics, May 22, 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 0.9% in April 2015. April's index was 7.4% higher than the previous April and

(Continued on page 18)

(Continued from page 17)

was 35.6% higher than the November 2011 trough. The steady gains in the Seattle area index have brought local home prices back to just 5.8% below the 2007 pre-recession peak. Seattle area home prices have declined only once (last May) since November 2011.

Washington State's apartment vacancy rate dropped three percentage points to a low of 3.3%. All counties included in the survey, except Yakima, had vacancy rates below 5%. Twelve counties have rates below three percent indicating a shortage of rental units. Thirteen of the eighteen counties included in the survey had decreasing vacancy rates compared to the same time period one year ago.

(Source: University of Washington Runstad Center for Real Estate Studies - Spring 2015; ERFC July, 2015, Economic & Revenue update)

Risks to Economic Recovery

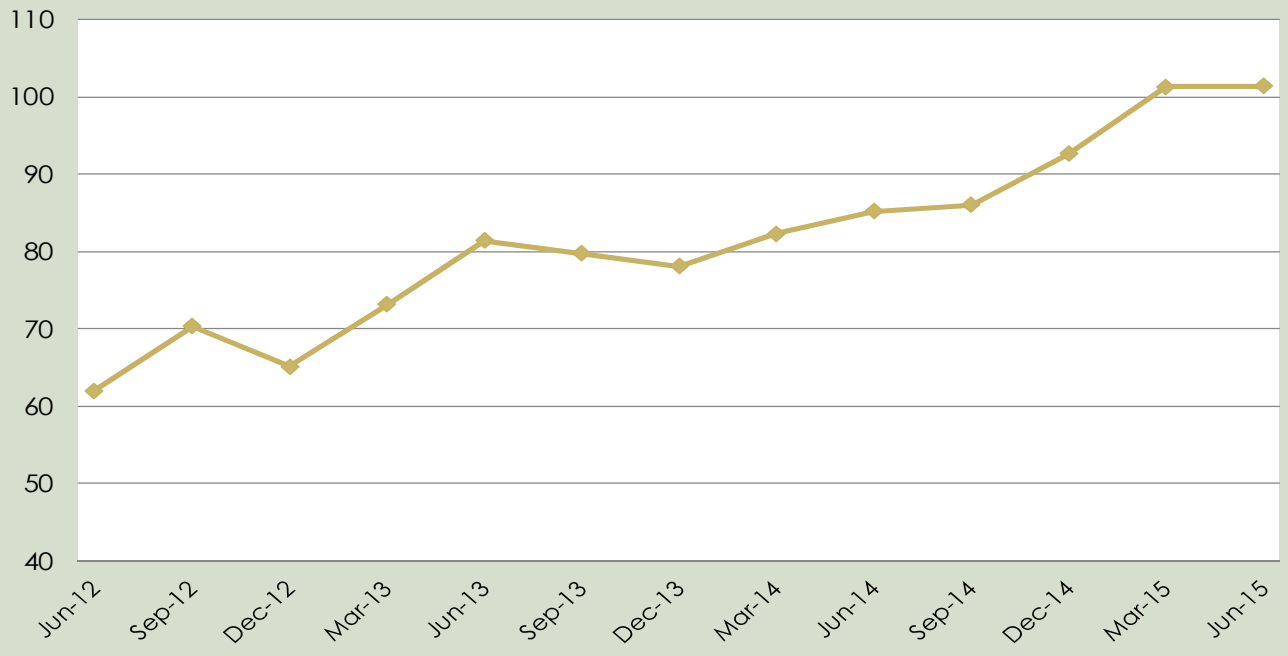
Risks to the local economy are generally from factors outside the state.

These risks include:

* **Federal Fiscal Policy**. Federal fiscal policy remains a drag on economic growth through lower-than-average spending. Monetary policy remains accommodative, 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: ERFC June, 2015, Economic & Revenue update)

Consumer Confidence - Historical Trend



Conference Board Consumer Confidence Index