

2015 Fiscal Year End Financial Status Report

AT A GLANCE:

- The warm weather at the beginning of the year had a strong negative effect on natural gas and electric utility taxes received.
- Sales tax, as a whole, is 23% higher than 2014 year end; with construction-related sales tax up 74%.
- The hot and dry summer pushed Water fund charges for service revenue up 12% in 2015 over 2014 year end.

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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, 2015.



Mayor Butler Displays Issaquah Spirit

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

Performance at a Glance

	Year-to-Date Performance	Compared to Budget
General Fund Expenditure vs. Budget	Positive	-3%
General Fund Revenue vs. Budget	Positive	4%
Tax Revenue Performance	Positive	4%
Utility Funds Expenditures vs. Budget	Positive	-18%
Utility Funds Revenues vs. Budget	Positive	3%

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: 2015 Fiscal Year Performance

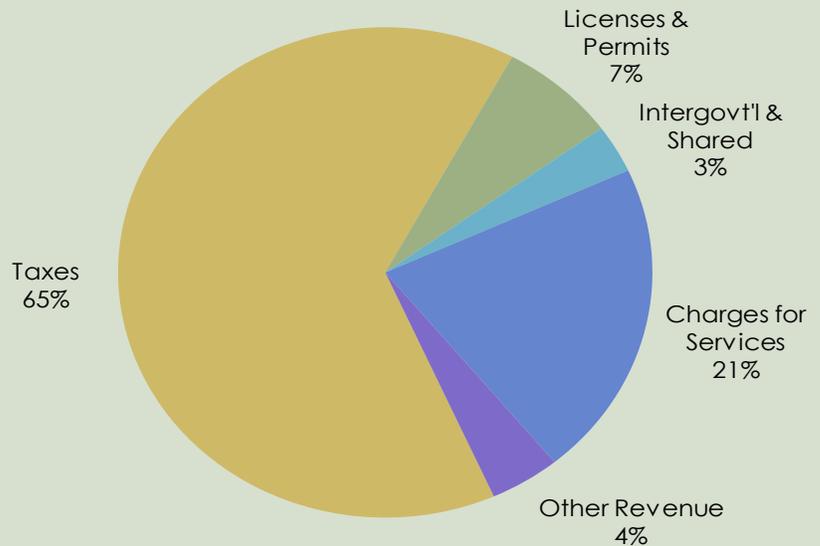
Revenue Highlights

The General Fund is the largest of the General Government Operating funds. It is primarily tax supported and accounts for basic services such as public safety, parks and recreation, and community development.

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.

Many significant General Fund revenue sources are economically sensitive, such as Sales tax, Business and Occupation (B&O) tax and development-related fees.

General Fund Actual Revenue by Source

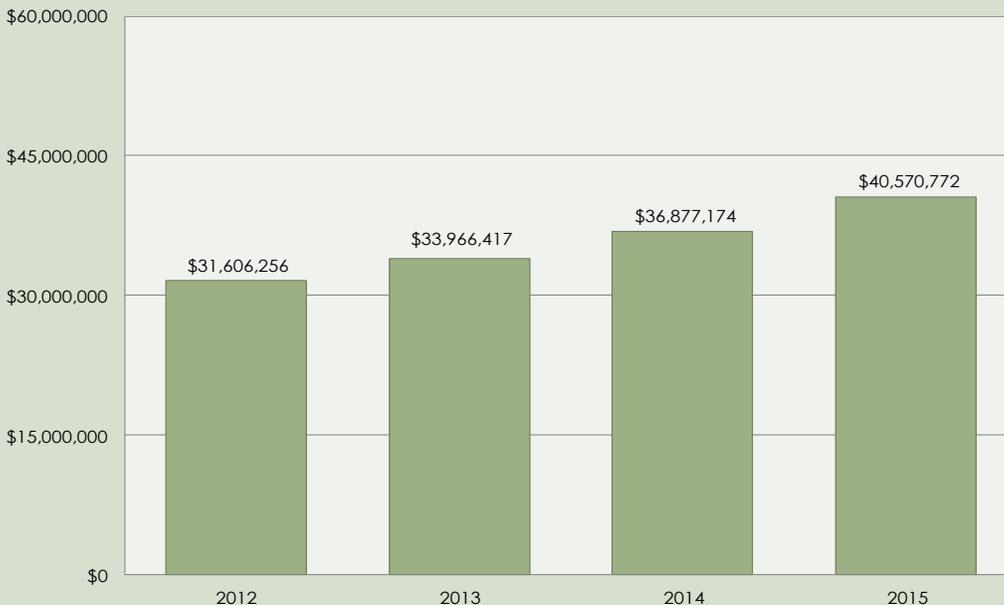


As of December 31, total General Fund revenue finished at \$40,570,772, at 104% of the 2015 budgeted amount; 10% higher than in 2014.

Three major revenue sources, Sales tax, B&O tax and Jail Services all experienced gains at 2015 year end compared to the same period in 2014; with Sales Tax and B&O Tax showing significant gains of 23% and 39% respectively.

Only three major revenue sources reported less revenue comparatively - Utility Taxes, Development Fees and Recreation Fees.

General Fund Actual Revenue Received Through December 31



Taxes

Sales Tax (+23%)

Sales Tax is the largest source (25%) of

(Continued on page 3)

General Fund Major Revenue Sources - Actual Revenue Received

Through the Year Ended December 31

Revenue Source	2012 Actual	2013 Actual	2014 Actual	2015 Actual	% Change From 2014
Sales Tax	\$ 7,264,225	\$ 8,291,908	\$ 8,356,668	\$ 10,269,832	23%
Property Tax	6,865,806	7,050,374	7,572,353	7,819,262	3%
Utility Taxes	4,493,787	4,445,759	4,358,715	4,242,607	-3%
Development Fees	2,010,948	3,872,166	4,856,417	4,663,788	-4%
B&O Tax	2,281,628	2,526,199	2,592,709	3,607,790	39%
Recreation Fees	2,006,425	2,149,588	2,117,690	1,814,526	-14%
Jail Services	1,498,083	1,526,965	1,694,168	2,008,982	19%
Court Fines/Fees	1,104,376	952,396	1,139,388	1,171,951	3%

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General Fund revenue for the City and is highly reliant on the local economy. Fiscal year 2015 saw a 23% gain in sales tax over 2014, largely due to construction-related sales tax. Sales tax is discussed further on [Page 9](#).

showed an increase of 3% for 2015 over fiscal year 2014, and is right on target for the four-year average.

Property Tax (+3%)

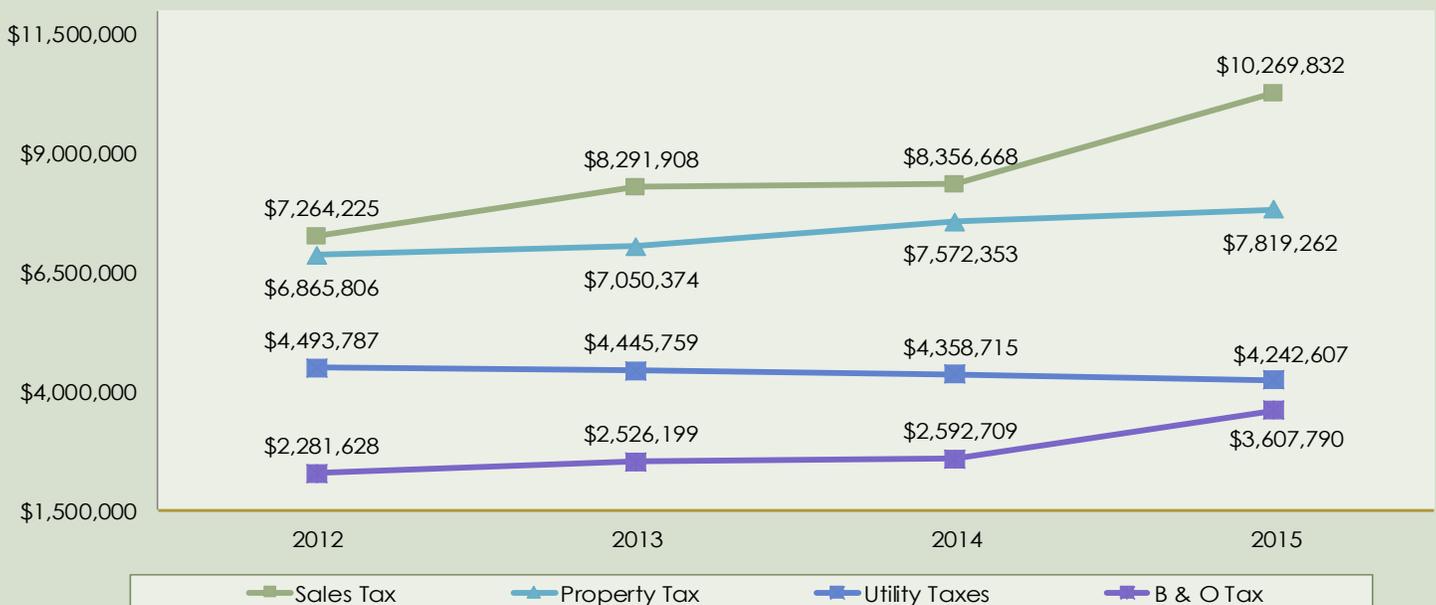
Property Tax represents the second largest source of tax revenue for the City and

Utility Taxes (-3%)

Utility taxes are the fourth largest source of General Fund revenue, comprising 11% of total revenue received in 2015.

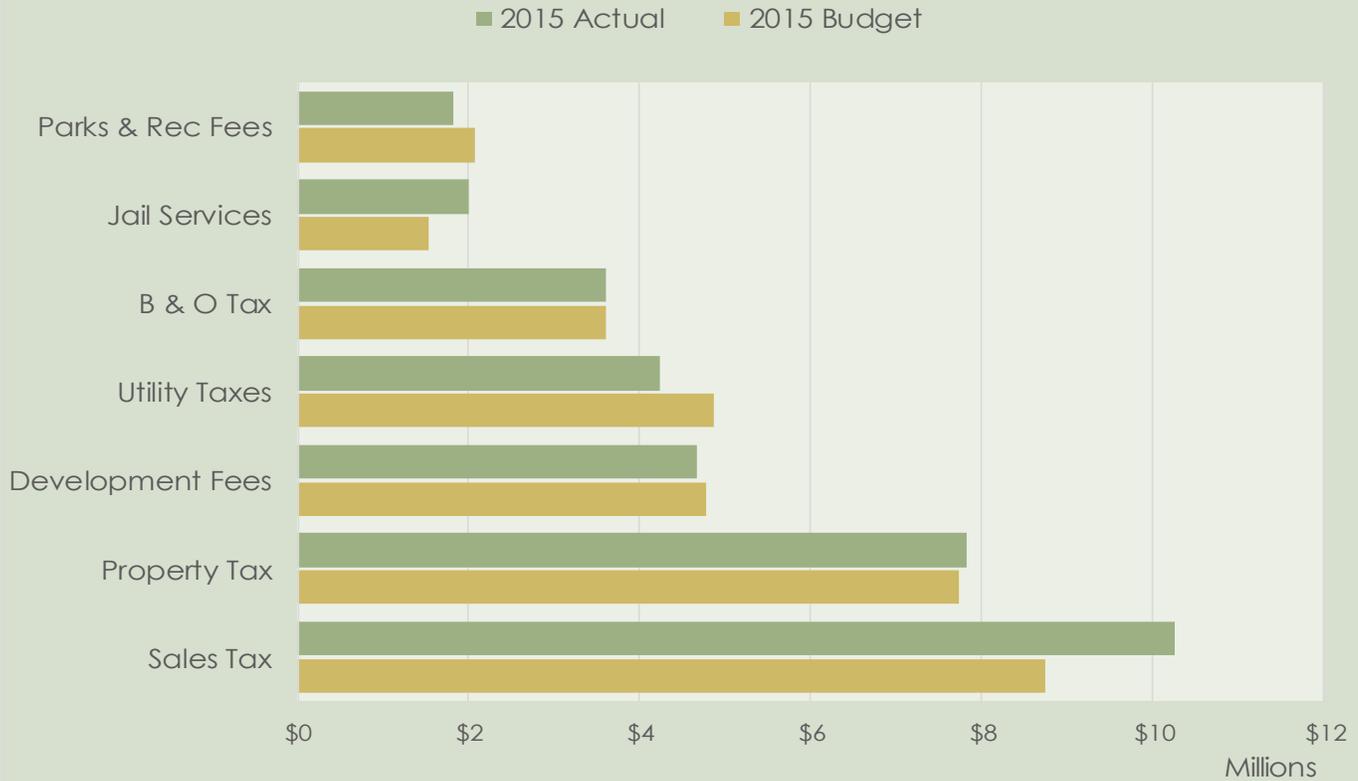
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Four-Year History of Major Tax Revenue Received by Tax Type



General Fund: 2015 Fiscal Year Performance (cont.)

2015 General Fund Major Revenue Sources - Budget to Actual



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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.

While utility taxes collected through year end 2015 resulted in a 3% dip over fiscal year 2014, utility tax revenue received recovered significantly during the year after starting first quarter 2015 29% lower than first quarter 2014.

The decrease in revenue received is a reflection of the mild winter and spring as well as the inordinately dry summer experienced in the Pacific Northwest in 2015. This resulted in

decreased consumption of natural gas and electricity, and less utility tax revenue.

B & O Tax (+39%)

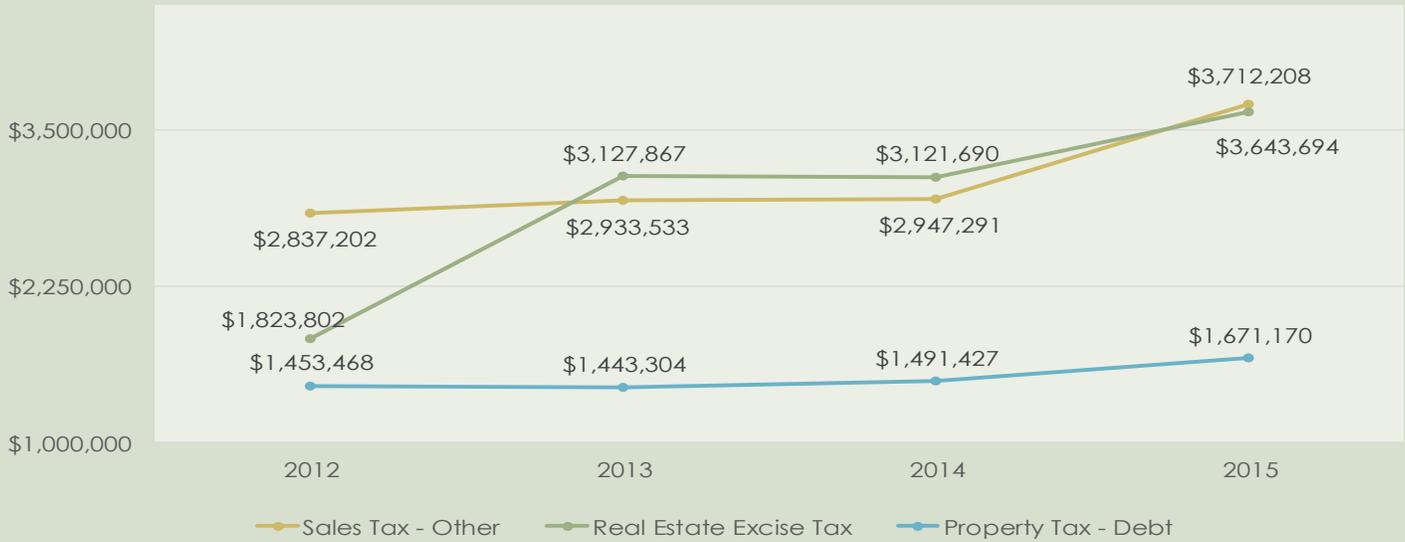
Business and occupation (B&O) taxes are imposed on all business activity occurring within the Issaquah City limits. B&O taxes are collected quarterly or annually depending on a business's gross income.

The 39% increase B&O revenue received through December 31, 2015 over 2014 is primarily related to the increase in the B&O tax rates which took effect April 1.

Also contributing to the increase is a change in

(Continued on page 5)

Major Taxes Supporting Other City Funds



(Continued from page 4)

City legislation which now requires non-religious hospitals to file and pay B&O tax.

Other Major Revenue

Development Fees (+7%)

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

Increased development in the Central Issaquah area, as well as continuing development in the Issaquah Highlands, contributed 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 (-14%)

Recreation fees include the fees paid to participate in Parks Department recreation and aquatics programs. The 14% decrease in fees received through year end 2015 compared to 2014 is directly related to the closure of the Julius Boehm Pool for renovation beginning in late November 2014 through August 2015.

When examining the four-year trend of revenue received for

recreation classes (excluding aquatics program fees), 2015 year-to-date revenue is only 6% lower than the four-year average.

Jail Services (+19%)

Jail services 2015 revenue received increased 19% over fiscal year 2014, and is 21% above the four-year average. 2015 represents the highest 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 (+3%)

Court Fines/Fees revenue is up 3% from 2014 revenue. This reflects a gradual

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General Fund: 2015 Fiscal Year Performance (cont.)

(Continued from page 5)

levelling of revenue collected in this category after the 2013 low.

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 December 31 are \$38,108,260; 97% of the 2015 budgeted amount. This figure is 5% greater than 2014 and consistent with the four-year average.

A snapshot of 2015 General Fund expenditures by department is presented below.

A more detailed analysis of budget-to-actual variances by department can be found beginning on [page 11](#).

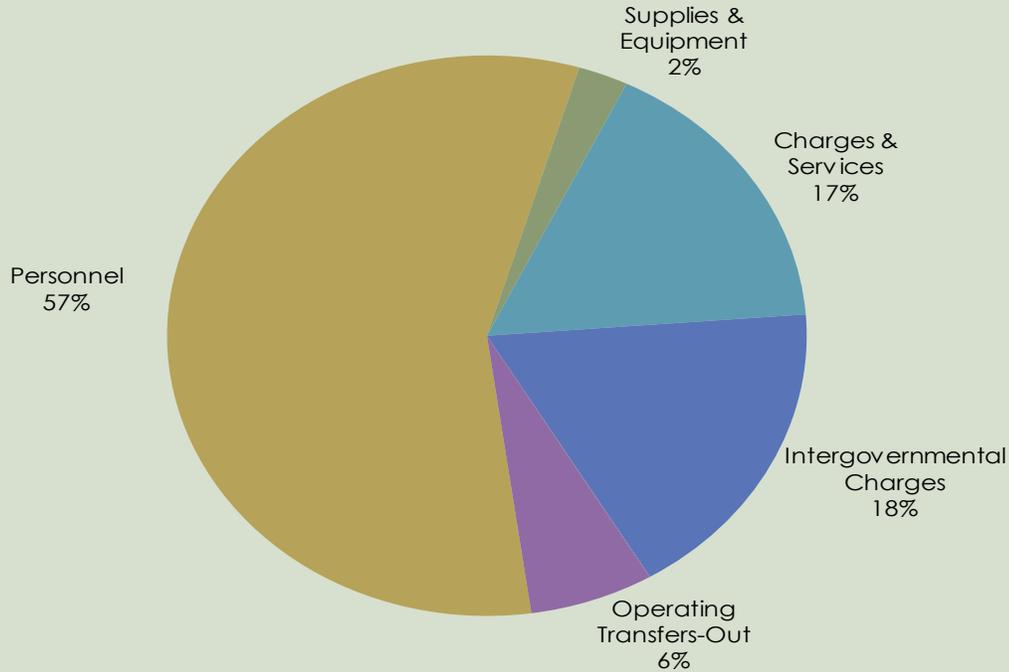
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General Fund Departments - Actual Expenditures

Through the Quarter Ended December 31, 2015

Department Name	Budget	Actual for the 4th Quarter	Year-to-Date Actual	Year-to-Date % of Budget
City Council	\$ 113,800	\$ 34,645	\$ 111,964	98%
Municipal Court	895,500	233,287	909,849	102%
Executive	816,000	216,340	813,038	100%
Finance	1,028,150	228,157	1,001,492	97%
Legal	622,000	208,648	605,023	97%
Support Svcs & Systems	463,500	113,888	461,618	100%
Human Resources	383,750	129,043	407,834	106%
Information Technology	656,300	134,725	670,714	102%
City Clerk	303,450	79,655	237,213	78%
Police	9,542,200	2,318,421	9,481,647	99%
Fire	5,835,700	1,454,925	5,808,831	100%
Communications	304,050	79,751	290,001	95%
Community Services	833,200	294,870	728,064	87%
Development Services	5,595,640	1,292,681	5,177,599	93%
Economic Development	676,800	166,006	656,969	97%
Parks & Recreation	7,486,500	1,850,256	7,168,075	96%
Other General Gov't'l	3,919,750	1,165,052	3,578,329	91%
Total GF Departments	\$ 39,476,290	\$ 10,000,348	\$ 38,108,260	97%

General Fund Actual Expenditures by Type



(Continued from page 6)

Ending Fund Balance

Ending fund reserves increased \$2,462,512 in 2015, ending the year with a 28.4% expenditure coverage ratio. This ratio is up from 23.1% in 2014.

General Fund reserve policy requires a minimum

reserve of 8% of budgeted expenses to maintain operations.

2015 General Fund ending fund balance is \$3,280,357 higher than budgeted; a result of actual expenditures being less than budgeted as well as greater than budgeted actual revenue received.

General Fund Actual Fund Balance Performance

	2011	2012	2013	2014	2015
Beginning Fund Balance	\$ 7,158,894	\$ 8,775,545	\$ 8,596,109	\$ 7,731,976	\$ 8,352,108
Revenues	\$ 31,490,602	\$ 31,606,256	\$ 33,966,417	\$ 36,877,174	\$ 40,570,772
Expenditures	<u>29,873,951</u>	<u>31,785,692</u>	<u>34,830,550</u>	<u>36,257,042</u>	<u>38,108,260</u>
Difference	\$ 1,616,651	\$ (179,436)	\$ (864,133)	\$ 620,132	\$ 2,462,512
Ending Fund Balance	\$ 8,775,545	\$ 8,596,109	\$ 7,731,976	\$ 8,352,108	\$ 10,814,620^①

① Note: The 2016 Budget approved a one-time transfer to the Contingency Fund of \$300k and \$500k for other programs from ending fund balance.

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	\$ 7,734,000	\$ 3,509,586	\$ 7,819,262	101%
Sales Tax	8,752,000	2,627,354	10,269,832	117%
Business & Occupation Tax	3,606,000	1,218,527	3,607,790	100%
Utility Taxes	4,875,000	1,178,428	4,242,607	87%
Other Taxes	220,600	80,082	250,042	113%
<i>Total Taxes</i>	<i>25,187,600</i>	<i>8,613,976</i>	<i>26,189,534</i>	<i>104%</i>
Building/Development Fees	\$ 2,744,000	\$ 316,057	\$ 2,569,427	94%
Business Licenses	274,000	77,747	295,912	108%
Other Licenses/Permits	17,700	10,137	20,176	114%
<i>Total Licenses & Permits</i>	<i>3,035,700</i>	<i>403,940</i>	<i>2,885,514</i>	<i>95%</i>
Federal Grants	\$ 130,000	\$ 83,014	\$ 110,301	85%
State & Local Grants	204,000	43,093	173,355	85%
Sales Tax Mitigation	560,000	141,983	567,648	101%
Criminal Justice (State)	44,600	16,931	56,288	126%
Liquor	377,400	109,598	377,622	100%
<i>Total Intergovt'l/Shared</i>	<i>1,316,000</i>	<i>394,618</i>	<i>1,285,214</i>	<i>98%</i>
Jail Services/Fees	1,527,500	739,251	2,008,982	132%
Court Fees & Fines	1,138,100	384,220	1,171,951	103%
Recreation/Pool Fees	2,068,400	627,371	1,814,526	88%
Engineering/Inspection	2,029,540	535,495	2,094,362	103%
Dispatch Services	425,000	178,190	495,538	117%
Other Fees & Charges	929,800	239,028	896,302	96%
<i>Total Charges for Services</i>	<i>8,118,340</i>	<i>2,703,555</i>	<i>8,481,660</i>	<i>104%</i>
Investment Interest	\$ 168,100	\$ 16,819	\$ 168,438	100%
Rents & Leases	832,000	174,275	943,370	113%
Other Miscellaneous Revenue	54,500	58,166	158,611	291%
<i>Total Miscellaneous Revenue</i>	<i>1,054,600</i>	<i>249,260</i>	<i>1,270,419</i>	<i>120%</i>
Operating Transfers-In	\$ 302,500	\$ 75,875	\$ 303,500	100%
Misc Other Sources	-	1,423	154,931	
<i>Total from Other Sources</i>	<i>302,500</i>	<i>77,298</i>	<i>458,431</i>	<i>152%</i>
Total General Fund Revenue	\$ 39,014,740	\$ 12,442,649	\$ 40,570,772	104%

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 December 31, 2015, is \$10,269,832, or 117% of the total amount budgeted for retail sales tax. In comparison to 2014, the City received \$1,913,164 or 23% more in retail sales tax in 2015.

Major Tax Category Performance

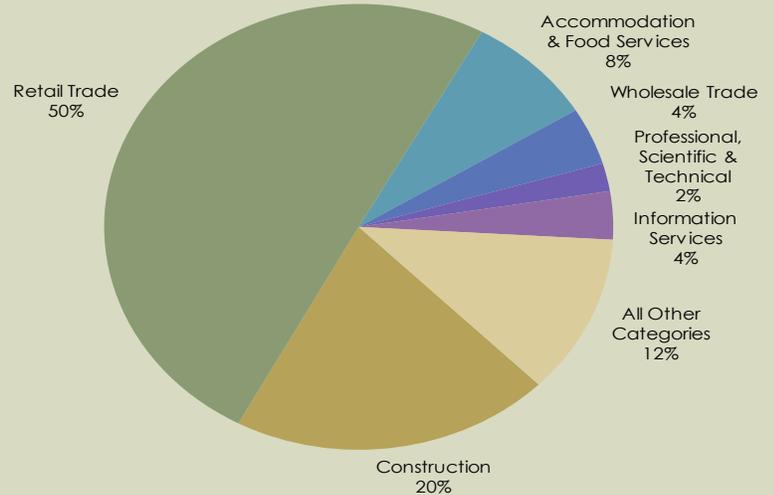
The City of Issaquah receives the majority of its retail sales tax, 70%, from two categories: Retail trade at 50% and construction at 20%. While retail trade-related sales tax increased 19%, construction-related sales tax for 2015 was 74% higher than that received in 2014; the highest since 2011.

At the 2011 high water mark, the City received \$2,361,661 in construction-related sales taxes due in large part to the construction of Swedish Hospital and increased residential development in the Issaquah Highlands.

In 2015, Issaquah Highlands construction activity continued to be a factor, along with construction related to the Central Issaquah Plan which began in 2015.

It is important to remember that construction-related sales tax is highly dependent on economical and environmental factors.

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 2015 expenditures for the General Fund departments ended the year 5% higher than fiscal year 2014 and 97% of the budgeted amount. Eleven out of seventeen General Fund departments finished 2015 either significantly higher or lower than the same quarter last year.

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

General Fund Expenditures - Four-Year Comparison

Through the Year Ended December 31 - Unaudited

Department	2012 Actual	2013 Actual	2014 Actual	2015 Actual	% Change From 2014
City Council	\$ 75,589	\$ 73,419	\$ 81,199	\$ 111,964	38% (a)
Executive	988,421	1,020,937	752,289	813,038	8%
Municipal Court	683,838	793,446	840,782	909,849	8%
City Clerk	305,465	347,316	276,368	237,213	-14% (b)
Finance	914,987	1,051,033	898,573	1,001,492	11% (c)
Legal	509,628	568,163	526,427	605,023	15% (d)
Support Svcs & Systems	-	-	349,766	461,618	32% (e)
Communications	-	233,877	262,905	290,001	10% (f)
Human Resources	453,050	354,547	349,464	407,834	17% (g)
Information Technology	949,042	651,291	602,369	670,714	11% (h)
Police	7,806,149	8,429,513	9,243,608	9,481,647	3%
Fire	4,707,133	5,056,459	5,275,592	5,808,831	10% (i)
Development Services	3,301,517	5,201,690	5,466,903	5,177,599	-5%
Economic Development	209,825	537,684	660,895	656,969	-1%
Parks & Recreation	6,855,732	7,073,155	7,423,402	7,168,075	-3%
Community Services	443,841	478,634	664,890	728,064	10% (j)
Other General Gov't'l	3,581,476	2,959,389	2,581,608	3,578,329	39% (k)
Total GF Departments	\$ 31,785,692	\$ 34,830,550	\$ 36,257,042	\$ 38,108,260	5%

General Fund: Department Expenditures (cont.)

Explanation of Significant % Variance of Budget Expended

- (a) **City Council +38%** - The increase results from an increase in salary and wages for Council Members implemented after recommendation of an independent salary commission study.
- (b) **City Clerk -14%** - The decrease in 2015 expenditures versus those in 2014 is due to a vacancy in the Deputy City Clerk position. The position was filled late in the year.
- (c) **Finance +11%** - The increase in 2015 over 2014 can be attributed to the annual payment for Munis software and maintenance fees.
- (d) **Legal +15%** - The increase in 2015 legal expenses is directly linked to an increase in general municipal services related to the increase in development activity.
- (e) **Support Services & Systems +32%** - 2015 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) **Communications +11%** - 2015 costs increased as a result of staff promotions.
- (g) **Human Resources +17%** - 2015 expenses increased over 2014 due to a position reclassification to a higher compensation level and the financial compensation of a departing staff member.
- (h) **Information Technology +11%** - The 11% increase in 2015 expenses over 2014 is due to the financial compensation of a retiring senior staff member.
- (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) **Community Services +10%** - The 2015 budget increase of funding for community services by 17% over 2014 accounts for the change.
- (k) **Other General Gov't'l +39%** - Most of the increase in expenditures from 2014 to 2015 is from:
- ◆ *Commuter Trip Reduction plan incentive expenses moved from the Sustainability Fund to the General Fund of \$33K;*
 - ◆ *Professional Services costs related to E-gov Alliance membership of \$39K;*
 - ◆ *Facility improvements in the Police Department Gun Range of \$28K; and*
 - ◆ *An increase in interfund transfers of \$460K from the General Fund to the Street fund.*
 - ◆ *A one-time investment of \$250k to benefit Historical Preservation.*
 - ◆ *An interfund transfer of \$55k to the Medical Self Insurance Fund from the General Fund.*

Utility Funds: 2015 Year End 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.

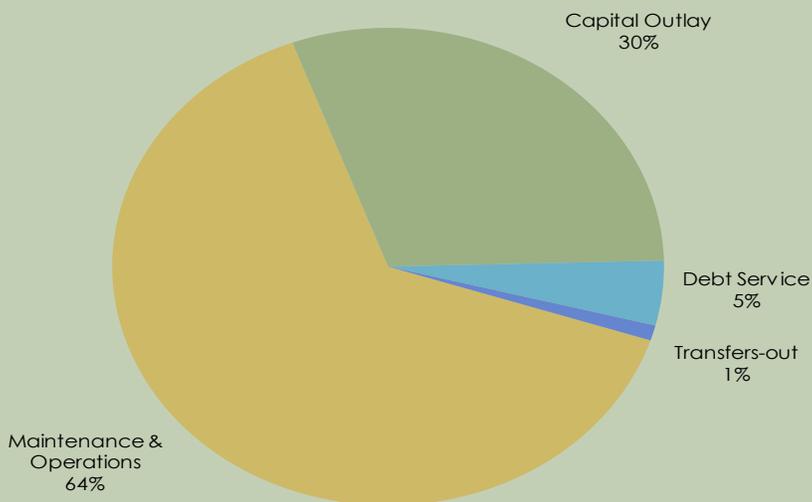
Expenses

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.

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

As of December 31, 2015, budget-to-actual expenses for the combined utilities (operating and capital) ended 18% lower than the four-year average. Operating expenses in the combined utilities ended 5% below budget.

Utility Funds - Year to Date Expenses by Category



2015 Water operating expenses finished at 93% of budget; 1% lower than the four-year average and 14% higher than the same period in 2014. This increase includes a \$500k increase in the transfer to the Water Capital fund as well as repairs to the Newport Way Booster Pump Station.

Sewer operating expenses ended 2015 at 97% of budget; 5% higher than the four-year average and 7% higher than 2014. The increase over 2014 is primarily tied to the increase in METRO Sewer costs which resulted from warm weather-related higher consumption by commercial and multi-family customers.

Stormwater operating expenses finished 2015 at 88% of budget; 5% less than the four-year average. 2015 year-end expenses were only 1% higher than 2014.

Revenue

The majority of Utility revenue, 75%, 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 25% 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 year-end, Utility revenue, as a whole, finished 3% higher than the budgeted amount and 20% higher than 2014 actuals. This is primarily due to an increase in charges for

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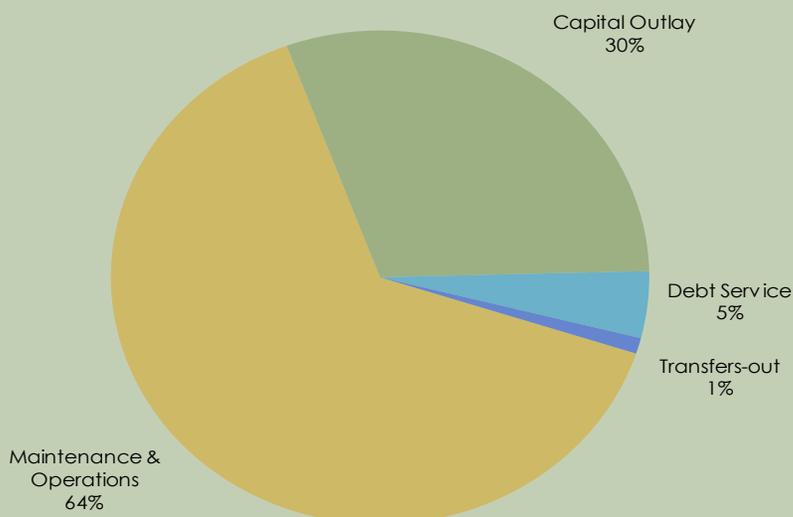
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service revenue resulting from the unusually temperate weather in 2015.

The Water and Sewer utility funds increases were more directly related to the charges for services increases; while the Stormwater utility benefited from the receipt of grants that had been deferred from 2014.

Individual Utility fund performance is illustrated on the pages that follow.

Utility Funds - Year to Date Expenses by Category



	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	\$ 5,852,060	\$ 2,574,796	\$ 2,851,571
Operating Revenues						
Charges for Service	\$ 6,237,000	\$ 7,608,024	\$ 7,701,500	\$ 7,934,823	\$ 4,455,000	\$ 4,545,890
Intergovernmental	-	-	-	-	-	37,570
Other Revenue	1,500	1,000	-	-	-	300
Total Operating Revenues	\$ 6,238,500	\$ 7,609,024	\$ 7,701,500	\$ 7,934,823	\$ 4,455,000	\$ 4,583,760
Operating Expenses						
Maintenance & Operation	5,671,700	5,289,506	7,178,300	7,131,765	3,050,155	2,670,394
Total Operating Expenses	5,671,700	5,289,506	7,178,300	7,131,765	3,050,155	2,670,394
Operating Income (Loss)	\$ 566,800	\$ 2,319,518	\$ 523,200	\$ 803,058	\$ 1,404,845	\$ 1,913,366
Non-Operating Revenues						
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ 2,141,400	\$ 2,339,317
Capital Contributions	4,400,000	2,665,425	55,000	677,464	276,000	284,595
Rents & Leases	513,950	558,950	-	-	-	-
Other Revenue	17,000	71,351	56,000	107,666	186,000	29,338
Total Non-Operating Revenues	\$ 4,930,950	\$ 3,295,726	\$ 111,000	\$ 785,129	\$ 2,603,400	\$ 2,653,250
Non-Operating Expenses						
Capital Outlay	\$ 7,344,900	\$ 4,591,413	\$ 310,625	\$ 135,077	\$ 3,902,640	\$ 2,364,666
Debt Service						
Principal	495,000	495,000	-	-	361,300	361,291
Interest	144,500	144,429	-	-	18,600	24,747
Transfers-Out	100,000	100,000	45,000	45,000	141,000	96,000
Total Non-Operating Expenses	\$ 8,084,400	\$ 5,330,842	\$ 355,625	\$ 180,077	\$ 4,423,540	\$ 2,846,705
Ending Balance	\$ 6,571,633	\$ 8,536,186	\$ 5,393,337	\$ 7,260,171	\$ 2,159,501	\$ 4,571,482

Actual Expenses & Revenue^(a) Four-Year Comparison thru December 31

WATER UTILITY

Unaudited

	2012	2013	2014	2015
Beginning Balance	\$ 4,274,401	\$ 6,807,223	\$ 8,037,181	\$ 8,251,784
Operating Revenues				
Charges for Service	\$ 6,221,923	\$ 6,489,234	\$ 6,807,593	\$ 7,608,024 (b)
Other Revenue	1,150	1,960	1,150	1,000
Total Operating Revenues	\$ 6,223,073	\$ 6,491,194	\$ 6,808,743	\$ 7,609,024
Operating Expenses				
Maintenance & Operations	\$ 4,897,255	\$ 4,703,930	\$ 4,647,709	\$ 5,289,506 (c)
Total Operating Expenses	\$ 4,897,255	\$ 4,703,930	\$ 4,647,709	\$ 5,289,506
Operating Income (Loss)	1,325,818	1,787,264	2,161,034	2,319,518
Non-Operating Revenues				
Rents & Leases	\$ 657,800	\$ 704,000	\$ 533,950	\$ 558,950
Capital Contributions	3,403,179	2,087,039	3,004,092	2,665,425 (d)
Other Revenue	17,648	15,971	33,256	71,351
Total Non-Operating Revenues	\$ 4,078,627	\$ 2,807,010	\$ 3,571,298	\$ 3,295,726
Non-Operating Expenses				
Capital Outlay	\$ 1,509,767	\$ 2,213,465	\$ 3,810,638	\$ 4,591,413 (e)
Debt Service				
Principal	1,005,000	730,000	480,000	495,000
Interest	211,857	178,349	158,650	144,429
Transfers-Out	145,000	242,500	122,915	100,000
Total Non-Operating Expenses	\$ 2,871,624	\$ 3,364,315	\$ 4,572,203	\$ 5,330,842
Ending Balance	\$ 6,807,222	\$ 8,037,182	\$ 9,197,311	\$ 8,536,186

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

(b) A drier than usual summer contributing to an increase in charges for services of \$800,400 compared to 2014.

(c) The majority of the \$641,000 increase over 2014 is tied to an increase in the transfer to the Water Capital Fund.

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

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

SEWER UTILITY

Unaudited

	2012	2013	2014	2015
Beginning Balance	\$ 4,177,881	\$ 4,049,482	\$ 4,899,110	\$ 5,852,060
Operating Revenues				
Charges for Service	\$ 6,694,467	\$ 7,392,688	\$ 7,550,996	\$ 7,934,823 (a)
Other Revenue	-	130	120	-
Total Operating Revenues	\$ 6,694,467	\$ 7,392,818	\$ 7,551,116	\$ 7,934,823
Operating Expenses				
Maintenance & Operations	\$ 6,509,079	\$ 5,982,024	\$ 6,668,642	\$ 7,131,765 (a)
Total Operating Expenses	\$ 6,509,079	\$ 5,982,024	\$ 6,668,642	\$ 7,131,765
Operating Income (Loss)	185,388	1,410,794	882,474	803,058
Non-Operating Revenues				
Capital Contributions	\$ 115,520	\$ 58,899	\$ 216,833	\$ 677,464
Other Revenue	102,652	100,197	100,829	107,666
Debt Service:				
Principal	5,807	5,807	-	-
Interest	15,789	325	-	-
Total Non-Operating Revenues	\$ 239,768	\$ 165,228	\$ 317,661	\$ 785,129
Non-Operating Expenses				
Capital Outlay	\$ 448,419	\$ 603,896	\$ 190,710	\$ 135,077
Transfers-Out	90,000	122,500	51,563	45,000
Total Non-Operating Expenses	\$ 538,419	\$ 726,396	\$ 242,273	\$ 180,077
Ending Balance	\$ 4,064,619	\$ 4,899,109	\$ 5,856,972	\$ 7,260,171

(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 December 31 YTD Actuals	2012 Actual	2013 Actual	2014 Actual	2015 Actual	% Change from 2014
Operating Expenses	\$ 5,144,714	\$ 5,189,994	\$ 5,364,528	\$ 5,802,160	8% (a)
% of All Sewer Operating Expenses	79%	87%	80%	81%	
Operating Revenue	\$ 4,781,110	\$ 5,365,790	\$ 5,465,097	\$ 5,868,037	7% (a)

STORMWATER UTILITY

Unaudited

	2012	2013	2014	2015
Beginning Balance	\$ 2,718,667	\$ 2,795,117	\$ 2,144,286	\$ 2,851,571
Operating Revenues				
Charges for Service	\$ 4,169,473	\$ 4,261,272	\$ 4,338,223	\$ 4,545,890 (a)
Intergovernmental	-	53,078	83,036	37,570
Other Revenue	<u>1,600</u>	<u>150</u>	<u>1,170</u>	<u>300</u>
Total Operating Revenues	\$ 4,171,073	\$ 4,314,500	\$ 4,422,428	\$ 4,583,760
Operating Expenses				
Maintenance & Operations	<u>\$ 2,709,781</u>	<u>\$ 3,149,163</u>	<u>\$ 2,642,215</u>	<u>\$ 2,670,394 (a)</u>
Total Operating Expenses	\$ 2,709,781	\$ 3,149,163	\$ 2,642,215	\$ 2,670,394
Operating Income (Loss)	1,461,293	1,165,337	1,780,214	1,913,366
Non-Operating Revenues				
Intergovernmental	\$ 1,000,717	\$ 396,056	\$ 275,277	\$ 2,339,317 (b)
Capital Contributions	19,725	77,176	289,270	284,595
Other Revenue	<u>17,875</u>	<u>53,648</u>	<u>16,486</u>	<u>29,338</u>
Total Non-Operating Revenues	\$ 1,038,317	\$ 526,880	\$ 581,033	\$ 2,653,250
Non-Operating Expenses				
Capital Outlay	\$ 1,571,177	\$ 1,710,483	\$ 1,019,718	\$ 2,364,666 (b)
Debt Service				
Principal	661,291	361,291	361,291	361,291
Interest	53,790	33,677	25,565	24,747
Transfers-Out	<u>141,000</u>	<u>233,500</u>	<u>114,642</u>	<u>96,000</u>
Total Non-Operating Expenses	\$ 2,427,259	\$ 2,338,952	\$ 1,521,215	\$ 2,846,705
Ending Balance	\$ 2,791,018	\$ 2,148,382	\$ 2,984,317	\$ 4,571,482

(a) Operating revenues and expenditures remain relatively consistent with those in prior years.

(b) After three years of receiving less than expected grant funding, 2015 grant revenue received increased exponentially. This has resulted in previously deferred capital projects going forward in 2015.

Economic Outlook Update

2015 Economy in Brief

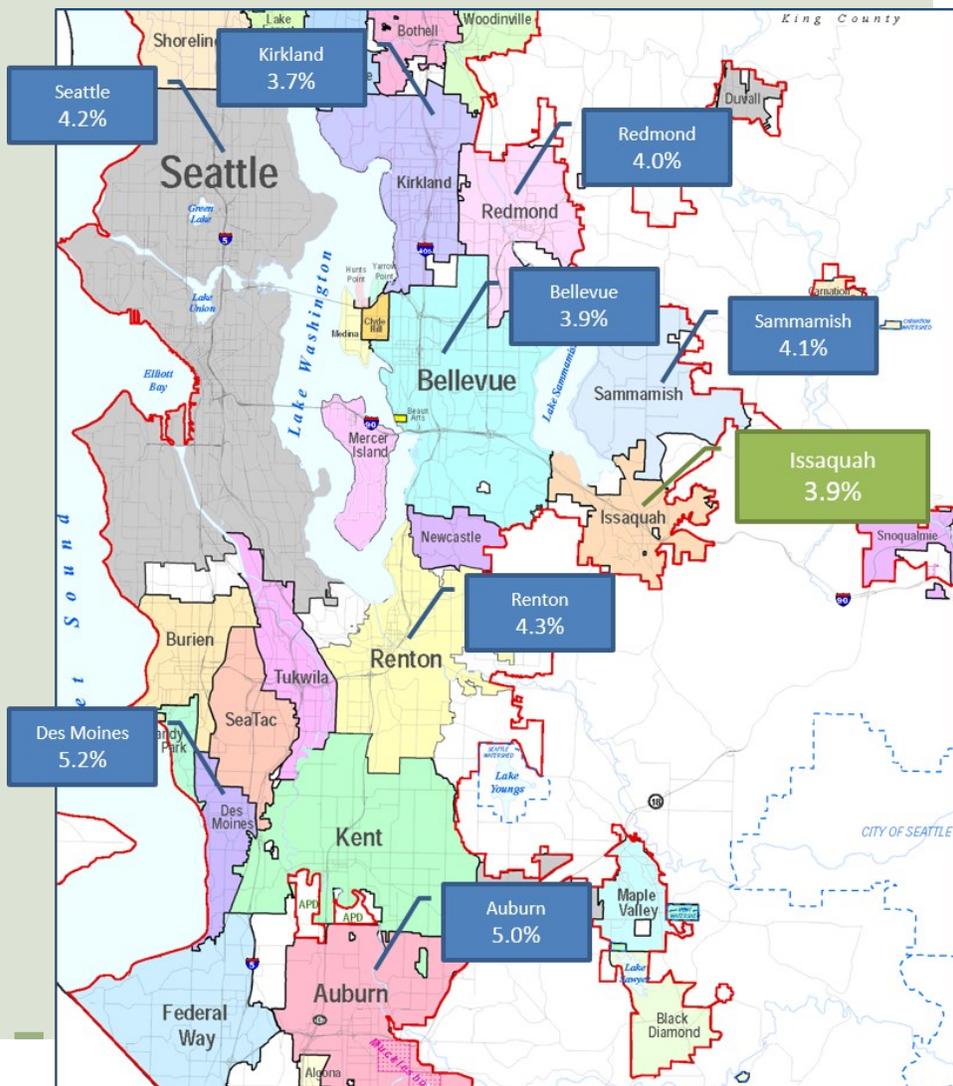
- * The national economy slowed sharply in the fourth quarter. After growing 2.0% in the third quarter of 2015, Gross Domestic Product (GDP) slowed to just 1.0%. Both the strong U.S. dollar and weak economic growth abroad are weighing heavily on exports which were the largest drag on growth.
- * Oil prices declined significantly in the latter months of 2015. With weak global demand and strong supply, oil prices dropped by almost \$20 per barrel since the end of summer.
- * After a moderate decrease in November the Conference Board index of consumer confidence finished 2015 at 96.5, up from November's measure of 92.6. Consumers' positive assessment of the economy and job market spurred the 3.9 point increase.
- * Seattle area home prices are up 10% over the previous December; an increase of 43.1% since the 2011 trough, which is only 0.6% lower than the May 2007 peak.
- * As the current recovery passed the five-year mark, the duration alone has caused doubts as to whether the recovery will continue. According a survey from Bloomberg, economists don't see another recession happening in the next year.
- * For the year as a whole, Washington exports fell 4.5% from 2014 to 2015. This was the first decline in Washington exports since 2009.
- * December inflation in the Seattle area is 2.2% higher than the previous December.
- * Housing construction continues to perform strongly.

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	Dec 2015	Dec 2014
United States		
Unemployment Rate	5.0%	5.6%
Washington		
Unemployment Rate	5.5%	6.3%
Resident Labor Force	3,541,300	3,522,800
Unemployed	193,200	223,300
Seattle/Bellevue/Everett		
Unemployment Rate	4.6%	4.6%
Resident Labor Force	1,582,800	1,564,100
Unemployed	72,200	71,400
Issaquah		
Unemployment Rate	3.9%	3.4%
Resident Labor Force	18,868	18,664
Unemployed	742	640

Washington Employment Security Department

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



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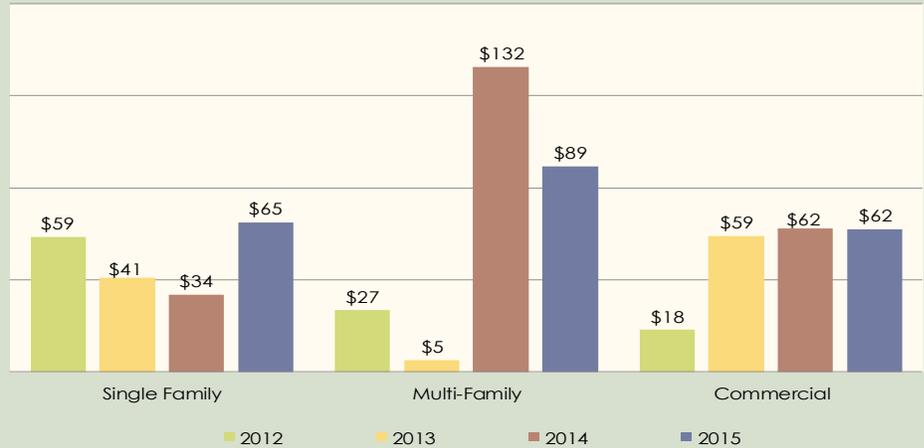
State and Local Economy

Employment

Based on a Bureau of Labor Statistics survey of businesses and governments, Washington added an estimated 68,000 jobs from December 2014 to December 2015 (not seasonally adjusted).

The private sector added an estimated 58,600 jobs; while the public sector gained 9,400 jobs.

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



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

Year-to-Date Building Permit Activity in Issaquah

Permit Type	2011	2012	2013	2014	2015
Single Family:					
New	125	216	141	90	127
Alterations	90	65	60	59	85
Multi-family:					
New	5	6	4	46	26
Alterations	33	29	6	19	53
Commercial:					
New	8	9	17	10	9
Alterations	119	104	150	117	101

Construction

While 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 leveled in volume.

Fourth quarter housing permits improved to 36,600 units (SAAR), up from 36,200 units in the third quarter, and higher than the 36,400 units projected by the Economic and Revenue

The industry with the highest amount of jobs added is "retail trade" at 13,300 jobs; while the manufacturing sector decreased the most, but by only 600 jobs.

At 3.9%, the City of Issaquah finds itself with one of the lowest unemployment rates for cities with a population greater than 25,000 located near Seattle. Kirkland is the lowest with a rate of 3.7%.

Issaquah Residential Units Permitted Through Year-End

Type of Unit	2011	2012	2013	2014	2015
Single Family	125	213	139	92	127
Multi-Family	7	142	20	557	481

(Continued on page 19)

(Continued from page 18)

Forecast Council (ERFC).

Single-family permits totaled 21,500 units in the fourth quarter compared to the forecast of 19,600 units.

Multi-family permits came in at 15,200, lower than forecasted by 1,600 units.

Locally, new single-family unit permitting followed a similar trend with permits climbing 41% from 2014 levels, but down 41% from 2012's high water mark; and 2015 new multi-family permit activity declined 43% from 2014 levels.

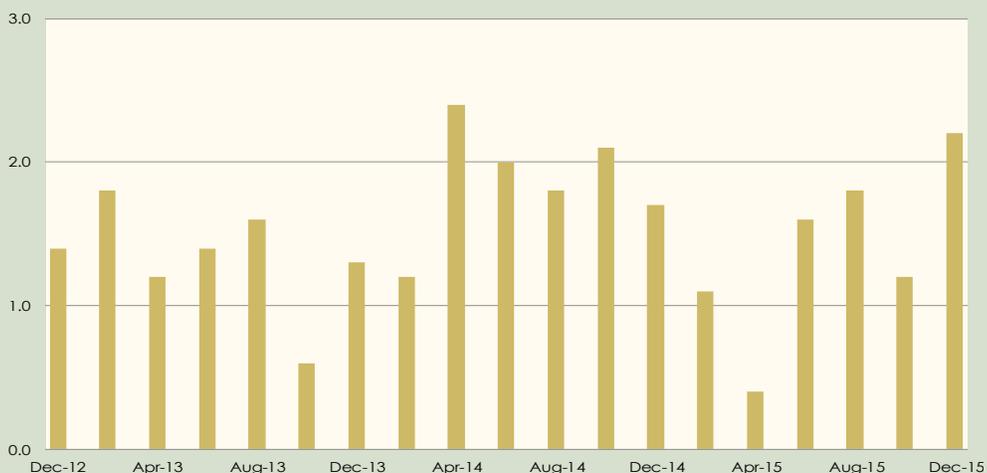
The 2015 year-to-date number of units authorized by permits total 481, down 14% compared to 2014's total units. Much of this development is occurring in the Issaquah Highlands as well as the Central Issaquah Plan area.

Inflation

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

Over the last year, from December 2014 to December 2015, consumer prices in the Seattle area rose 2.2% compared to 0.7% for the U.S. city average.

Consumer Price Index (CPI-U) - Historical Trend



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

Core prices, which exclude food and energy, were up 2.8% in Seattle compared to 2.1% for the nation. The higher Seattle inflation is largely due to more rapid growth in shelter costs.

During the year, shelter costs in Seattle rose 5.0% compared to 3.2% for the nation. However, other prices are also rising more rapidly here. Even with shelter excluded, Seattle inflation was -0.6% compared to -0.6% for the nation.

(Source: US Bureau of Labor Statistics, December 2015, news releases for Seattle and All Cities)

Housing

Seattle area home prices surged in the last five months of 2015 after three prior months of essentially no change. According to the S&P/Case-Shiller Home Price Indices, seasonally adjusted Seattle area home prices

(Continued on page 20)

Number of Active Issaquah Business Licenses	
2011	4,331
2012	4,715
2013	4,772
2014	5,078
2015**	5,594

**3,014 active licensees file B&O Tax returns annually, compared to 1,407 annual filers in 2014.

Seattle area housing prices in December are only 0.6% lower than the pre-recession peak.

(Continued from page 19)

jumped 0.7% in August, 0.9% in September, 1.4% in October, 1.3% in November and 1.5% in December. Seattle area home prices are up 10.0% over the previous December and are 43.1% higher than the

November 2011 trough. Seattle area home prices have recovered to just 0.6% below the May 2007 peak.

(Source: ERFC March 11, 2016 Economic & Revenue update)

Risks to Economic Recovery

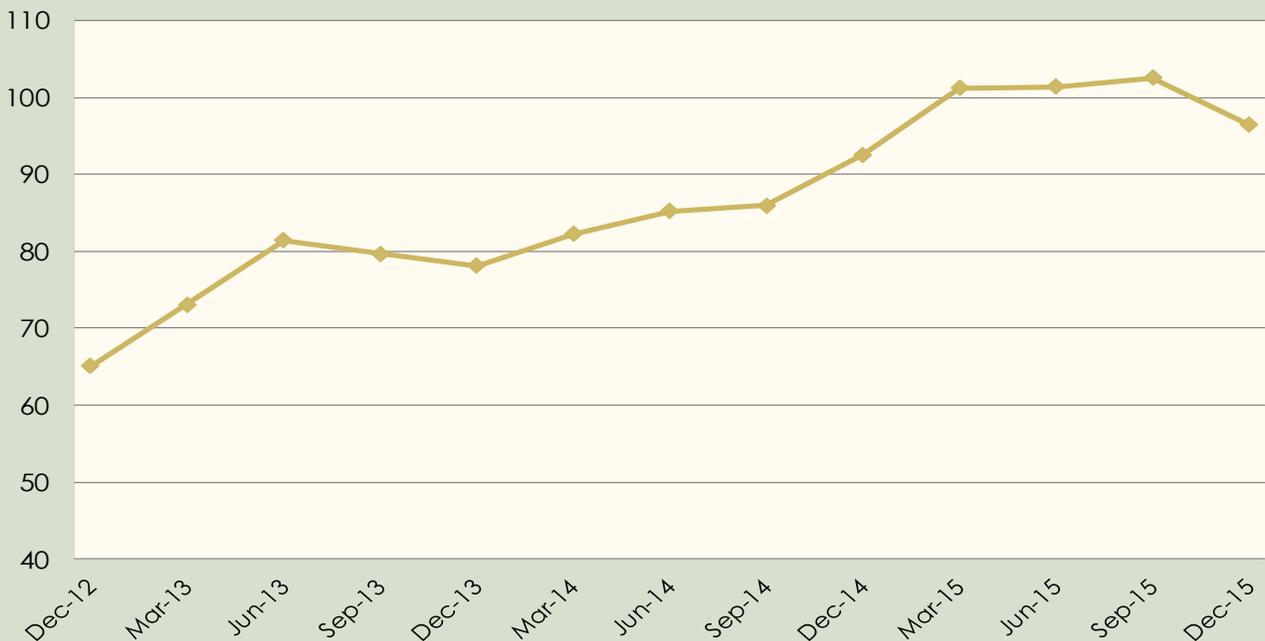
Risks to the local economy are generally from factors outside the state.

These risks include:

- * **Real Wage Growth Stagnates.** Leads to slower consumer spending.
- * **Slowing Global Economy.** Slowing Chinese and emerging market economies as well as lackluster growth in Japan and Eurozone.
- * **Dollar Strength Causes Exports Drop.** Weak global growth combined with high dollar strength to further impact exports.

(Source: ERFC February 2016, Economic & Revenue Forecast)

Consumer Confidence - Historical Trend



Conference Board Consumer Confidence Index