

2016 First Quarter Financial Status Report

AT A GLANCE:

- **Utility taxes rebounded by 39% over 1st quarter 2015. Revenue dipped in 2015 due to the unusually warm winter weather.**
- **B&O tax is 89% higher than first quarter of 2015 due to rate increases and changes in City municipal code.**
- **Development activity dipped 43% compared to first quarter 2015 due to decreased number of new commercial projects.**

INSIDE:

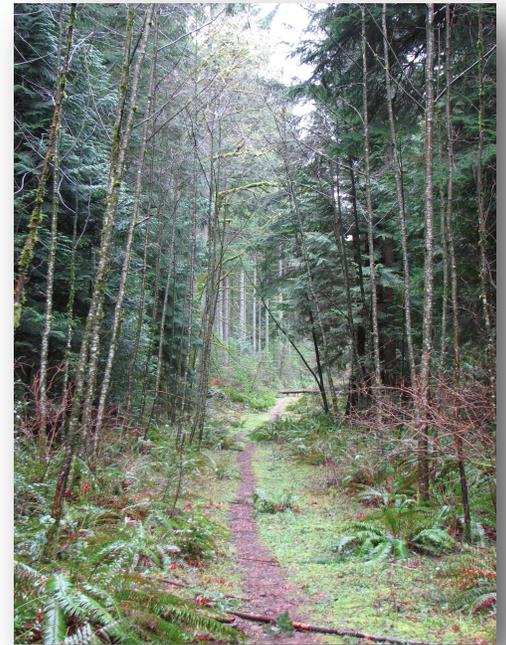
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Introduction

The Financial Status Report provides a summary budget-to-actual comparison of revenues and expenditures for the General Fund and Utility Funds for the quarter ended March 31, 2016.

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.



Park Pointe Upper Pathway

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	Positive	2%
Utility Funds Expenditures vs. Budget	Neutral	-1%
Utility Funds Revenues vs. Budget	Neutral	-1%

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: 2016 First Quarter Performance

Revenue Highlights

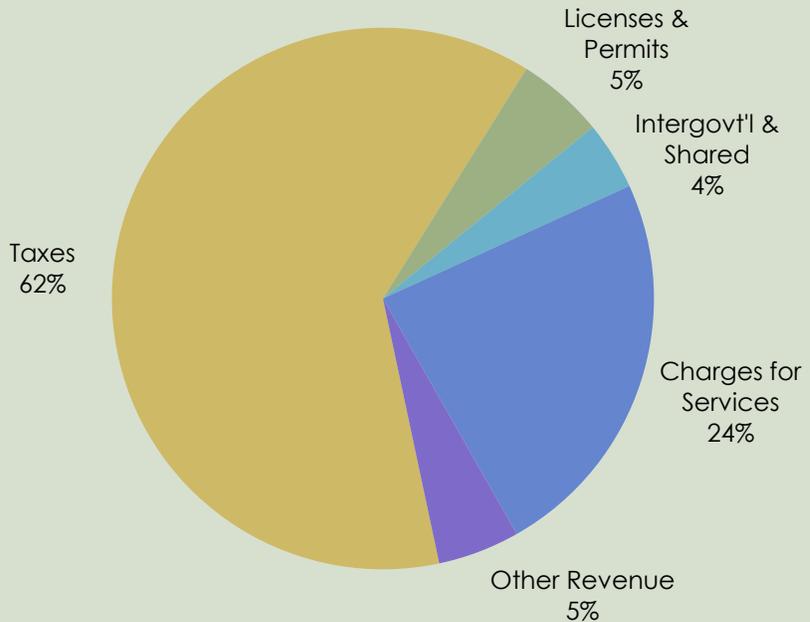
The primary revenue sources for the General Fund are taxes and charges for services. Together, these revenue sources comprise about 86% of the total General Fund revenue.

As of March 31, total General Fund revenue finished at \$9,194,517, or 22% of the 2016 budgeted amount; 12% higher than 2015.

Four major revenue sources, Utility taxes, Business and Occupation (B&O) tax, Recreation fees and Court fines and fees, all experienced gains in the first quarter of 2016 compared to the same period in 2015. B&O tax and Recreation fees showed significant gains; 89% and 49% respectively.

Only one major revenue source reported significantly less revenue compared to first quarter 2015; Development fees were 43% lower than last year. Less

General Fund Actual Revenue by Source



significantly, Jail Services were 8% lower than last year.

Major Revenue Source: Taxes

Sales Tax (+7%)

Sales Tax is the largest source of revenue for the General Fund; 29% of the total amount of budgeted revenue received in

the first quarter.

First quarter 2016 saw a 7% gain in sales tax over 2015, largely due to continuing construction-related sales tax and strong retail sales volume during the holiday season. Sales tax is explored further on Page 7.

(Continued on page 3)

General Fund Major Revenue Sources - Actual Revenue Received

Through the Quarter Ended March 31

Revenue Source	2013 Actual	2014 Actual	2015 Actual	2016 Actual	% Change From 2015
Sales Tax	\$ 2,067,830	\$ 2,251,700	\$ 2,471,047	\$ 2,651,298	7%
Property Tax	315,765	457,771	341,848	448,167	31%
Utility Taxes	1,208,131	1,312,363	937,808	1,306,856	39%
B&O Tax	640,326	673,773	668,532	1,264,957	89%
Development Fees	905,381	600,519	1,392,306	789,312	-43%
Recreation Fees	682,945	721,013	516,293	767,534	49%
Jail Services	301,400	298,988	411,251	378,833	-8%
Court Fines/Fees	224,861	263,739	258,208	301,319	17%

General Fund Actual Revenue Received Through March 31



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 39% increase in utility taxes collected in the first quarter of 2016 compared to 2015 brings utility tax revenue back in line with the four-year average.

2015 utility tax revenue was adversely affected by the unusually mild winter and spring experienced in the Pacific Northwest. This weather anomaly resulted in decreased consumption of natural gas and electricity and less utility tax revenue received.

B & O Tax (89%)

Business and occupation (B&O) taxes are imposed on all business activity occurring

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Property Tax (+31%)

Property Tax represents the second largest source of revenue for the General Fund and showed an increase of 31% for 2016 over first quarter of 2015, but is only 0.5% higher than the four-year average for property tax received in the first quarter.

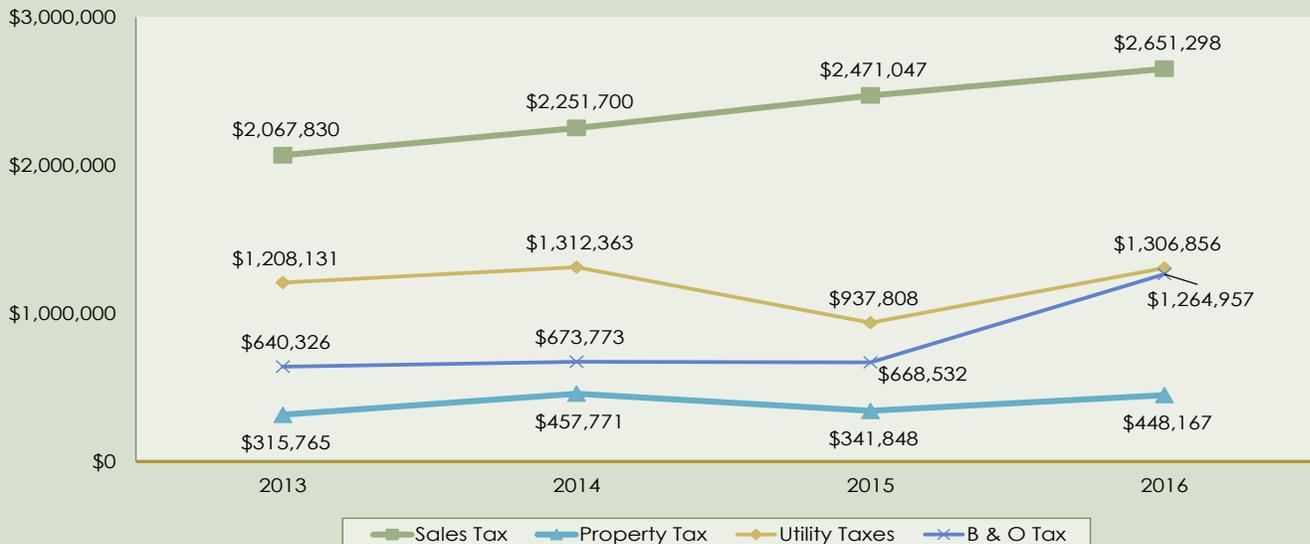
While the percentage increase over 2015 appears significant,

the revenue increase itself was \$106,319; a very small portion of the total budgeted amount of \$7,950,000 in revenue projected to be received for the year. The majority of property tax is remitted to the City in the second and fourth quarters of each year.

Utility Taxes (+39%)

Utility taxes are the third largest source of General Fund revenue, comprising 14% of all revenue received for first quarter 2016.

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



General Fund: 2016 First Quarter Performance (cont.)

(Continued from page 3)

within the Issaquah City limits. B&O taxes are collected either quarterly from businesses grossing more than \$25,000 in a quarter or annually for businesses grossing more than \$100,000 in a fiscal year.

Many businesses are opting to file annually. In 2016 there are now 3,074 annual filers compared to 2015's 2,214 businesses registered to file annually.

The majority of the 89% increase in first quarter 2016 B&O tax revenue over 2015 can be directly attributed to an increase in B&O tax rates that took effect April 1, 2015.

Also influencing the increase is a change to the Issaquah Municipal Code requiring hospitals and clinics not religiously-affiliated to now be subject to B&O taxes.

Other Major Revenue: Charges for Service

Development Fees (-43%)

Development fee revenue includes building permit fees, engineering services, plan review

and inspection services, as well as expedited review and inspection services.

After the boom Increased development activities in 2015 associated with the first steps in implementing the Central Issaquah Plan, 2016 First quarter revenue related to Development fees sunk 43% below 2015 levels and 12% below the four-year average.

As depicted on page 17, there has been a significant decrease in the number of multi-family and commercial permits. It is

expected that development activity will remain relatively flat throughout 2016.

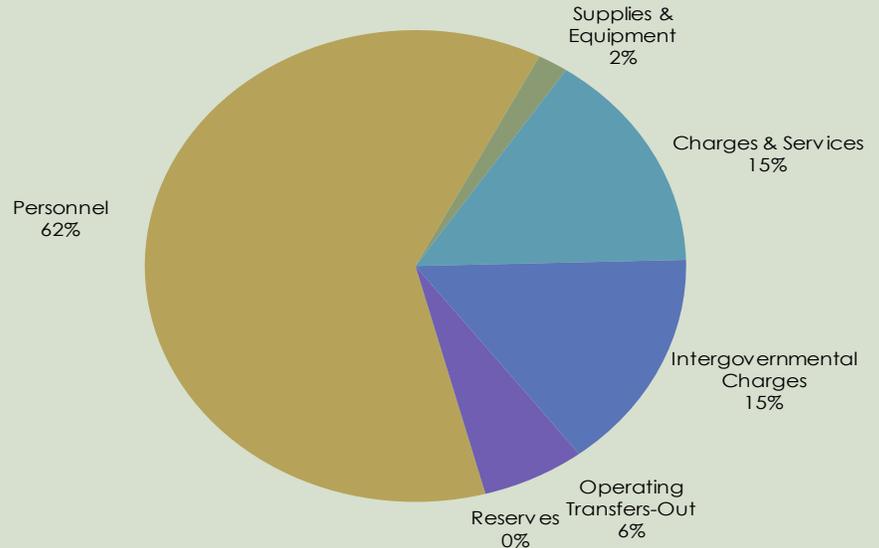
Recreation Fees (+49%)

Recreation fees include the fees paid to participate in Parks Department recreation and aquatics programs. 2016 first quarter Recreation Fee revenue is 49% higher than that received the first quarter of 2015. 2016 revenue received is level with the four-year average.

2015 first quarter revenue was

(Continued on page 5)

General Fund Actual Expenditures by Type



General Fund - Actual Expenditures & Revenue

Through the Quarter Ended March 31

General Fund	2013 Actual	2014 Actual	2015 Actual	2016 Actual	% Change From 2015
Revenue	\$ 7,203,874	\$ 7,554,317	\$ 8,231,563	\$ 9,194,517	12%
Expenditures	9,453,139	9,105,307	9,764,253	10,444,012	7%
Difference	\$ (2,249,265)	\$ (1,550,990)	\$ (1,532,690)	\$ (1,249,495)	

(Continued from page 4)

adversely affected by the closure of the Julius Boehm Pool for renovation from late November 2014 until it reopened late summer 2015.

Jail Services (-8%)

Jail Services 2016 revenue received decreased 8% compared to first quarter 2015, but is just 1.2% below the four-year average as a result of less daily billings.

2015 saw the highest first quarter revenue collected since 2010's

high water mark, with nearly double the usage of available beds in the jail.

Court Fines & Fees (+17%)

Court Fines/Fees revenue is up 17% from 2015 first quarter revenue. This increase is reflective of the increase in photo enforcement citations.

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 2016 budgeted amount. This figure is 7% greater than first quarter 2015 and consistent with the four-year average.

A snapshot of 2016 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 the Quarter Ended March 31, 2016

Department Name	Budget	Actual for the 1st Quarter	Year-to-Date Actual	Year-to-Date % of Budget
City Council	\$ 131,400	\$ 41,860	\$ 41,860	32%
Executive	897,200	225,028	225,028	25%
Municipal Court	999,700	244,457	244,457	24%
City Clerk	335,900	79,220	79,220	24%
Finance	1,089,500	259,521	259,521	24%
Legal	585,000	98,222	98,222	17%
Support Svcs & Systems	457,300	116,225	116,225	25%
Communications	318,700	74,097	74,097	23%
Human Resources	451,300	213,553	213,553	47%
Information Technology	794,860	186,816	186,816	24%
Police	10,107,900	2,557,610	2,557,610	25%
Fire	6,100,000	1,507,372	1,507,372	25%
Development Services	5,684,100	1,236,578	1,236,578	22%
Economic Development	729,000	187,687	187,687	26%
Parks & Recreation	7,935,900	1,947,268	1,947,268	25%
Community Services	840,100	73,049	73,049	9%
Other General Gov't'l	4,791,300	1,395,450	1,395,450	29%
Total GF Departments	\$ 42,249,160	\$ 10,444,012	\$ 10,444,012	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	\$ 7,950,000	\$ 448,167	\$ 448,167	6%
Sales Tax	9,255,000	2,651,298	2,651,298	29%
Business & Occupation Tax	4,000,000	1,264,957	1,264,957	32%
Utility Taxes	4,906,000	1,306,856	1,306,856	27%
Other Taxes	250,600	49,230	49,230	20%
<i>Total Taxes</i>	<i>26,361,600</i>	<i>5,720,508</i>	<i>5,720,508</i>	<i>22%</i>
Building/Development Fees	\$ 2,975,000	\$ 397,234	\$ 397,234	13%
Business Licenses	295,000	78,263	78,263	27%
Other Licenses/Permits	90,800	3,759	3,759	4%
<i>Total Licenses & Permits</i>	<i>3,360,800</i>	<i>479,255</i>	<i>479,255</i>	<i>14%</i>
Federal Grants	\$ 200,000	\$ 47,432	\$ 47,432	24%
State & Local Grants	285,000	62,186	62,186	22%
Sales Tax Mitigation	575,000	141,399	141,399	25%
Criminal Justice (State)	74,100	16,917	16,917	23%
Liquor	434,000	107,268	107,268	25%
<i>Total Intergovt'l/Shared</i>	<i>1,568,100</i>	<i>375,202</i>	<i>375,202</i>	<i>24%</i>
Jail Services/Fees	1,807,100	378,833	378,833	21%
Court Fees & Fines	1,204,400	301,319	301,319	25%
Recreation/Pool Fees	2,470,000	767,534	767,534	31%
Plan Check/Inspection/Eng	1,700,800	392,079	392,079	23%
Dispatch Services	435,000	74,841	74,841	17%
Other Fees & Charges	1,002,400	255,056	255,056	25%
<i>Total Charges for Services</i>	<i>8,619,700</i>	<i>2,169,661</i>	<i>2,169,661</i>	<i>25%</i>
Investment Interest	\$ 184,100	\$ 57,212	\$ 57,212	31%
Rents & Leases	910,100	307,282	307,282	34%
Other Miscellaneous Revenue	65,100	3,169	3,169	5%
<i>Total Miscellaneous Revenue</i>	<i>1,159,300</i>	<i>367,663</i>	<i>367,663</i>	<i>32%</i>
Operating Transfers-In	\$ 302,700	\$ 75,675	\$ 75,675	25%
Misc Other Sources	-	6,553	6,553	n/a
<i>Total from Other Sources</i>	<i>302,700</i>	<i>82,228</i>	<i>82,228</i>	<i>27%</i>
Total General Fund Revenue	\$ 41,372,200	\$ 9,194,517	\$ 9,194,517	22%

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, 2016, is \$2,651,298, or 29% of the total amount budgeted for retail sales tax. In comparison to 2015, the City received \$180,251, or 7% more in retail sales tax in 2016.

Major Tax Category Performance

The City of Issaquah receives the majority of its retail sales tax, 70%, from two categories: Retail Trade at 51% and Construction at 19%.

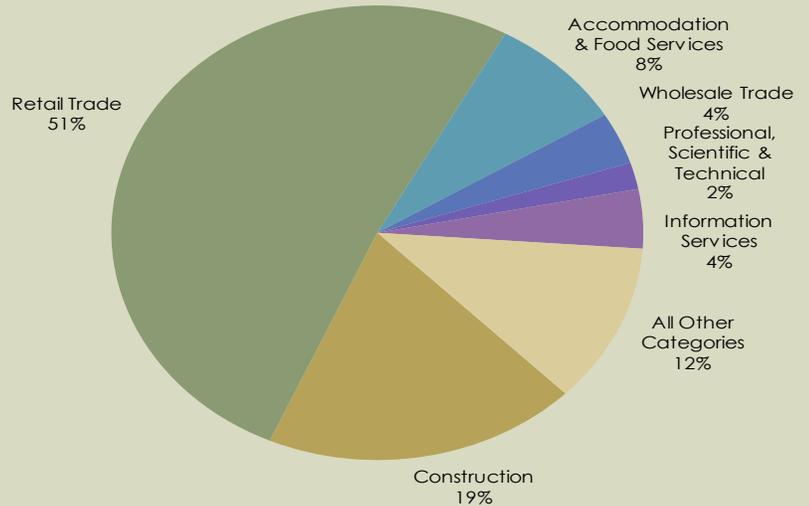
While Retail Trade-related sales tax showed moderate gains, Construction-related sales tax for 2016 was 19% higher than that received first quarter of 2015; which had been the highest since 2011.

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 2016, Issaquah Highlands construction activity continues to be a factor, along with the initial permitted construction projects related to the Central Issaquah Plan that has begun as well.

While first quarter 2016 development revenue has decreased, higher than budgeted development revenue throughout 2014 and 2015 contributes to the expectation that construction-related sales tax will continue its surge into 2016; gradually levelling off toward year end.

Sales Tax Categories



Retail Trade
Year-to-Date Received Through March 31



Construction
Year-to-Date Received Through March 31



General Fund: Department Expenditures

Overall, actual 2016 expenditures for the General Fund departments ended the first quarter 7% higher than first quarter 2015. Twelve out of seventeen General Fund departments finished the first quarter of 2016 either significantly higher (>+7%) or lower (<-5%) than the same quarter last year.

2016 actual department expenditures that ended significantly higher or lower than first quarter 2015 expenditures are illustrated below and explained on the next page.

General Fund Expenditures - Four-Year Comparison

Through the Quarter Ended March 31

Department	2013 Actual	2014 Actual	2015 Actual	2016 Actual	% Change From 2015
City Council	\$ 19,372	\$ 27,251	\$ 29,394	\$ 41,860	42% (a)
Executive	287,873	231,647	223,426	225,028	1%
Municipal Court	197,876	207,390	234,838	244,457	4%
City Clerk	104,348	77,104	71,952	79,220	10% (b)
Finance	390,116	277,754	283,769	259,521	-9% (c)
Legal	95,499	72,271	99,788	98,222	-2%
Support Svcs & Systems	-	99,553	133,888	116,225	-13% (d)
Communications	51,116	68,349	78,306	74,097	-5% (e)
Human Resources	98,797	98,547	101,072	213,553	111% (f)
Information Technology	179,132	162,683	166,310	186,816	12% (g)
Police	2,316,382	2,452,565	2,697,237	2,557,610	-5% (h)
Fire	1,264,115	1,318,080	1,451,302	1,507,372	4%
Development Services	1,359,391	1,217,850	1,299,572	1,236,578	-5% (i)
Economic Development	132,959	172,602	176,191	187,687	7%
Parks & Recreation	1,788,376	1,860,514	1,798,761	1,947,268	8% (j)
Community Services	62,822	59,459	51,367	73,049	42% (k)
Other General Gov't'l	1,104,966	701,688	867,080	1,395,450	61% (ll)
Total GF Departments	\$ 9,453,139	\$ 9,105,307	\$ 9,764,253	\$ 10,444,012	7%

General Fund: Department Expenditures (cont.)

Explanation of Significant % Variance of Budget Expended

- (a) **City Council +42%** - The increase in 2016 first quarter expenditures versus the same period in 2015 is the result of an increase in salary and benefits for Council Members implemented after recommendation of an independent salary commission study mid-2015.
- (b) **City Clerk +10%** - The increase in 2016 first quarter expenditures compared to 2015 is a position that was vacant in first quarter of 2015 is now filled in 2016.
- (c) **Finance -9%** - The decrease in 2016 first quarter expenditures versus 2015 is tied to an adjustment in labor allocation (salaries and benefits) to more completely reflect a cost allocation study performed in 2014.
- (d) **Support Services & Systems -13%** - 2016 first quarter expenses were less than the same time period in 2015 due to labor reallocation to the City Facilities and Park Maintenance divisions in the Parks Department .
- (e) **Communications -5%** - The 2016 decrease is due a reduction in professional services expenditures compared to first quarter of 2015.
- (f) **Human Resources +111%** - The increase in 2016 first quarter expenditures over the same time period in 2015 is directly tied to the financial compensation of a departing senior staff member.
- (g) **Information Technology +12%** - The 12% increase in 2016 expenditures over 2015 is tied to the hiring of an intern to assist in workload.
- (h) **Police -5%** - The decrease in 2016 first quarter expenditures over 2015 is directly tied to the final compensation of a senior staff member who retired in 2015. and the vacancy of four new positions authorized in the 2016 budget.
- (i) **Development Services -5%** - 2016's decreased expenditures are primarily related to salary and benefit savings resulting from the vacancy of the department director position.
- (j) **Parks and Recreation +8%** - The increase in 2016's first quarter expenditures when compared to 2015 is caused by the cost reallocation of Support Services & Systems labor to the Parks Department as well as the return to full staffing at the Julius Boehm Pool in 2016. 2015 budgeted expenses for the Pool were lower in anticipation of the pool's closure for renovation during first quarter of 2015. Actual expenditures for 2015 reflect the lowered budget amount.
- (k) **Community Services +42%** - The increase in 2016 first quarter expenditures compared to 2015 is due to a position that was vacant in first quarter of 2015 and is now filled in 2016.
- (l) **Other General Gov'l +61%** - The increase in 2016 first quarter expenditures compared to 2015 is directly related to an increase in one-time Interfund transfers for:
- ◆ \$300,000 to the Contingency Fund which was newly established during the 2016 budget process; and
 - ◆ \$265,000 to the Street Improvement Fund for NW Holly Street construction.

Utility Funds: 2016 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

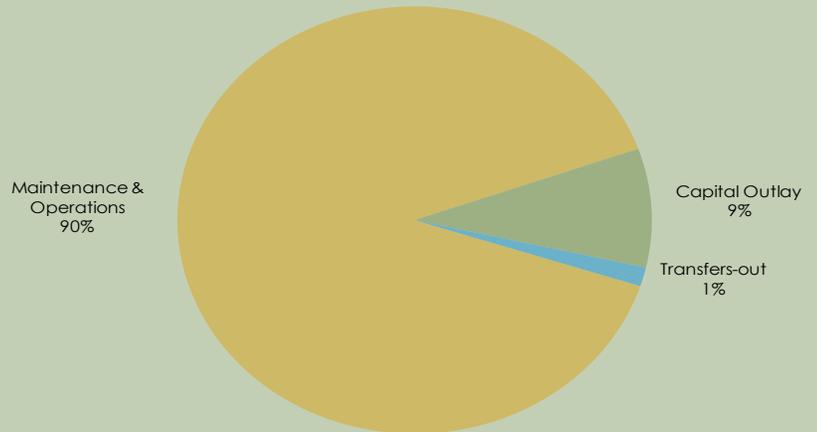
Expenses in the utility funds are segregated into four functional categories: Maintenance & Operations Costs, Capital Outlay, Debt Service and Transfers to other non-utility funds. The distribution of these expense categories over the three utilities is displayed at right.

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

As of March 31, 2016, expenses for the three utilities combined ended 1% less than the four year average.

2016 first quarter expenses for the Water utility as a whole, finished at 16% of budget; 2% lower than the four-year average. 2016 expenses, when compared

Utility Funds - Year to Date Expenses by Category



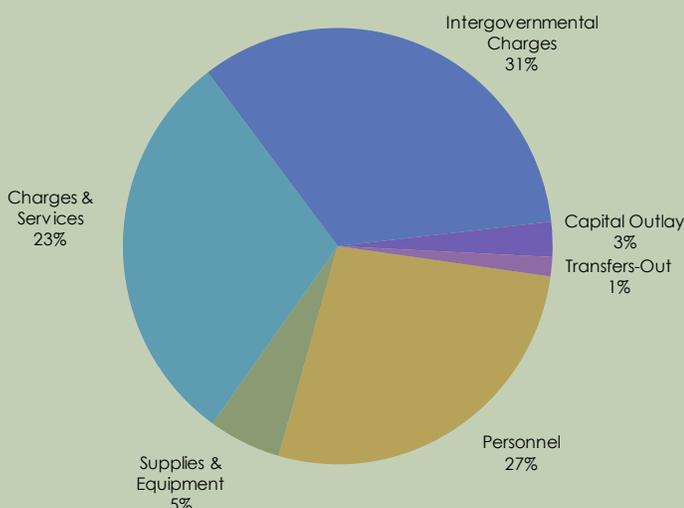
to 2015, are down 31% for the utility as a whole due to a significant decline in development projects processed in the fourth quarter of 2015. This decline affects the pass-through capital contributions the City collects on behalf of the Cascade Water Alliance (CWA) and then remits to them in the first quarter of the following year; in this case 2016 first quarter expenses.

Actual CWA expenses for first quarter 2015 were \$715,000 while 2016 were only \$135,000. This, combined with a \$168,056 decrease in capital project expenses results in 2016 capital expenses finishing 78% lower than 2015 first quarter expenses.

The 7% increase from 2015 to 2016 in the Sewer utility expenses is tied, in large part, to capital project implementation; primarily the manhole rehabilitation program. Capital costs related to the Holiday Inn Lift Station replacement will affect Sewer utility expenses as the year progresses.

First quarter Stormwater expenses finished at 15% of budget; matching the four-year average for Stormwater utility expenses as a whole.

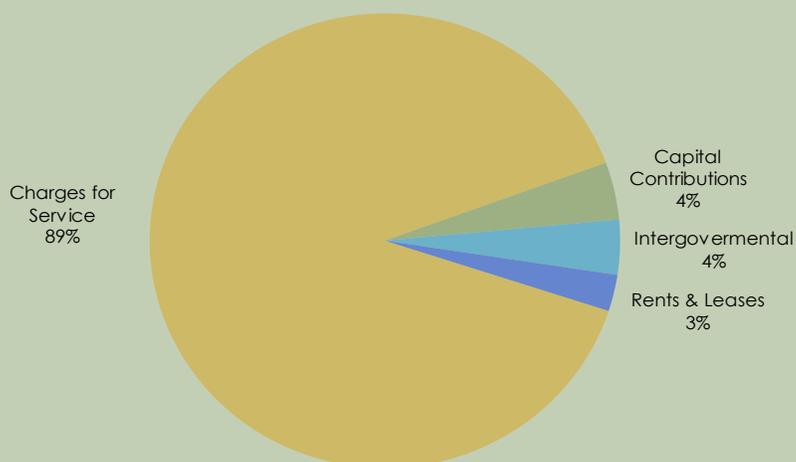
Utility Funds: Year-to-Date Expenses by Type



Revenue

The majority of utility revenue, 89%, is earned through charges for services, which are the charges utility customers pay for their consumption or use of water, stormwater removal and sewage treatment. The other 11% of revenue is comprised primarily of fees paid to the City by developers for capital construction to mitigate increased demand

Utility Funds - Year to Date Revenue by Source



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 1% less than the four-year average of budget-to-actual, but 24% less than first quarter 2015. This is primarily due to a large development project that brought higher-than-expected capital contributions to the Water and Sewer capital funds in 2015.

First quarter revenue for the Water funds is running 5% lower than the four-year average. This, as with the expense side of CWA capital contributions is tied to less development activity occurring in 2016 compared to 2015. Sewer funds revenue is 2% lower than budgeted for the same reason.

Overall, first quarter revenue for Stormwater funds is running 6% above the four year average due to the increased receipt of intergovernmental funding for capital projects. Charges for Service were equal to the four-year average.

	Water		Sewer		Stormwater	
	Budget	Year-to-Date	Budget	Year-to-Date	Budget	Year-to-Date
Beginning Balance	\$ 8,644,400	\$ 10,743,328	\$ 6,615,000	\$ 7,146,255	\$ 3,360,900	\$ 4,222,463
Operating Revenues						
Charges for Service	\$ 7,238,200	\$ 1,280,776	\$ 7,730,300	\$ 1,751,901	\$ 4,676,800	\$ 1,175,262
Intergovernmental	-	-	-	-	-	11,500
Other Revenue	1,200	200	-	-	-	-
Total Operating Revenues	\$ 7,239,400	\$ 1,280,976	\$ 7,730,300	\$ 1,751,901	\$ 4,676,800	\$ 1,186,762
Operating Expenses						
Maintenance & Operation	5,915,200	1,404,893	7,454,900	1,871,747	3,358,400	739,112
Total Operating Expenses	5,915,200	1,404,893	7,454,900	1,871,747	3,358,400	739,112
Operating Income (Loss)	\$ 1,324,200	\$ (123,917)	\$ 275,400	\$ (119,847)	\$ 1,318,400	\$ 447,650
Non-Operating Revenues						
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ 771,100	\$ 172,179
Capital Contributions	3,050,000	156,031	300,000	8,026	200,000	27,632
Rents & Leases	524,000	121,832	-	-	-	-
Other Revenue	80,000	14,612	10,000	-	198,100	3,750
Total Non-Operating Revenues	\$ 3,654,000	\$ 292,475	\$ 310,000	\$ 8,026	\$ 1,169,200	\$ 203,561
Non-Operating Expenses						
Capital Outlay	\$ 5,402,200	\$ 215,749	\$ 673,000	\$ 71,181	\$ 2,080,400	\$ 115,860
Debt Service						
Principal	510,000	-	-	-	361,300	-
Interest	130,100	-	-	-	18,600	-
Transfers-Out	106,300	26,575	47,900	11,975	147,100	25,525
Total Non-Operating Expenses	\$ 6,148,600	\$ 242,324	\$ 720,900	\$ 83,156	\$ 2,607,400	\$ 141,385
Ending Balance	\$ 7,474,000	\$ 10,669,562	\$ 6,479,500	\$ 6,951,278	\$ 3,241,100	\$ 4,732,289

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

WATER UTILITY ^(b)

	2013	2014	2015	2016
Beginning Net Position	\$ 6,807,223	\$ 8,037,181	\$ 9,197,311	\$ 10,743,328
Operating Revenues				
Charges for Service	\$ 1,273,127	\$ 1,226,053	\$ 1,293,980	\$ 1,280,776
Other Revenue	300	100	100	200
Total Operating Revenues	\$ 1,273,427	\$ 1,226,153	\$ 1,294,080	\$ 1,280,976
Operating Expenses				
Maintenance & Operations	\$ 1,329,427	\$ 1,228,350	\$ 1,368,744	\$ 1,404,893
Total Operating Expenses	\$ 1,329,427	\$ 1,228,350	\$ 1,368,744	\$ 1,404,893
Operating Income (Loss)	(56,000)	(2,197)	(74,665)	(123,917)
Non-Operating Revenues				
Rents & Leases	\$ 173,500	\$ 153,500	\$ 118,488	\$ 121,832
Capital Contributions	18,152	261,406	1,154,906	156,031 ^(c)
Other Revenue	113	14,294	26,394	14,612
Total Non-Operating Revenues	\$ 191,765	\$ 429,200	\$ 1,299,788	\$ 292,475
Non-Operating Expenses				
Capital Outlay	\$ 57,380	\$ 100,219	\$ 976,422	\$ 215,749 ^(d)
Debt Service				
Principal	-	-	-	-
Interest	299	300	54	-
Transfers-Out	40,000	33,050	25,000	26,575
Total Non-Operating Expenses	\$ 97,679	\$ 133,569	\$ 1,001,475	\$ 242,324
Ending Net Position	\$ 6,845,309	\$ 8,330,615	\$ 9,420,959	\$ 10,669,562

(a) No depreciation expense included.

(b) City Water Utility rates were increased effective January 1, 2016. Because the City bills in two-month increments, the revenue increase will be more visible in the second quarter.

(c) A large multi-family development project brought in higher than expected capital contributions for both the City and Cascade Water Alliance (CWA) in 2015. 2016 CWA contributions were significantly lower reflecting the decrease in new development projects.

(d) Major development activity occurring in the fourth quarter of 2014 significantly impacted the CWA-related contributions collected in the fourth quarter 2014 which were then remitted to CWA in the first quarter of 2015; impacting expenses for that quarter by \$715,000. CWA contributions collected in the fourth quarter of 2015 were significantly less, causing first quarter 2016 expenses to dip by 78%.

SEWER UTILITY ^(a)

	2013	2014	2015	2015
Beginning Net Position	\$ 4,049,482	\$ 4,899,110	\$ 5,856,972	\$ 7,146,255
Operating Revenues				
Charges for Service	\$ 1,655,829	\$ 1,705,779	\$ 1,760,091	\$ 1,751,901
Other Revenue	-	-	-	-
Total Operating Revenues	\$ 1,655,829	\$ 1,705,779	\$ 1,760,091	\$ 1,751,901
Operating Expenses				
Maintenance & Operations	\$ 1,288,355	\$ 1,662,782	\$ 1,804,567 ^(b)	\$ 1,871,747
Total Operating Expenses	\$ 1,288,355	\$ 1,662,782	\$ 1,804,567	\$ 1,871,747
Operating Income (Loss)	367,473	42,997	(44,476)	(119,847)
Non-Operating Revenues				
Capital Contributions	\$ 13,030	\$ 20,440	\$ 464,790 ^(c)	\$ 8,026
Other Revenue	3,500	3,248	4,639	-
Total Non-Operating Revenues	\$ 16,530	\$ 23,687	\$ 469,428	\$ 8,026
Non-Operating Expenses				
Capital Outlay	\$ 45,494	\$ 59,909	\$ 5,809	\$ 71,181
Transfers-Out	23,750	13,900	11,250	11,975
Total Non-Operating Expenses	\$ 69,244	\$ 73,809	\$ 17,059	\$ 83,156
Ending Net Position	\$ 4,364,241	\$ 4,891,986	\$ 6,264,866	\$ 6,951,278

(a) City Sewer Utility rates were increased effective January 1, 2016. Because the City bills in two-month increments, the revenue increase will be more visible in the second quarter.

(b) 2015's increase above 2014 is reflective of a 5.6% rate increase to King County METRO Sewer pass-through charges.

(c) Due to the submittal of a large multi-family development project in the first quarter of 2015, sewer capital contributions collected to improve the infrastructure related to the high-impact project jumped exponentially over 2014. 2016 capital contributions dropped to 20% less than average.

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	2013 Actual	2014 Actual	2015 Actual	2016 Actual	% Change from 2015
Operating Expenses	\$ 1,279,980	\$ 1,338,522	\$ 1,433,658	\$ 1,473,978	3%
% of All Sewer Operating Expenses	99%	80%	79%	79%	
Operating Revenue	\$ 1,198,431	\$ 1,243,413	\$ 1,302,544	\$ 1,298,902	0%
% of All Sewer Operating Revenue	72%	73%	74%	74%	

STORMWATER UTILITY ^(a)

	2013	2014	2015	2016
Beginning Net Position	\$ 2,795,117	\$ 2,144,286	\$ 2,984,317	\$ 4,222,463
Operating Revenues				
Charges for Service	\$ 1,109,170	\$ 1,129,386	\$ 1,171,563	\$ 1,175,262
Intergovernmental	-	15,628	21,705	11,500
Other Revenue	-	-	-	-
Total Operating Revenues	\$ 1,109,170	\$ 1,145,015	\$ 1,193,268	\$ 1,186,762
Operating Expenses				
Maintenance & Operations	\$ 765,699	\$ 720,504	\$ 701,441	\$ 739,112
Total Operating Expenses	\$ 765,699	\$ 720,504	\$ 701,441	\$ 739,112
Operating Income (Loss)	343,470	424,511	491,827	447,650
Non-Operating Revenues				
Intergovernmental	\$ 257,417	\$ 20,502	\$ 65,035	\$ 172,179 (b)
Capital Contributions	2,532	7,890	123,511 (c)	27,632
Other Revenue	7,009	6,748	5,957	3,750
Total Non-Operating Revenues	\$ 266,958	\$ 35,140	\$ 194,502	\$ 203,561
Non-Operating Expenses				
Capital Outlay	\$ 417,573	\$ 84,378	\$ 179,137	\$ 115,860
Transfers-Out	37,750	30,800	24,000	25,525
Total Non-Operating Expenses	\$ 455,323	\$ 115,178	\$ 203,137	\$ 141,385
Ending Net Position	\$ 2,950,222	\$ 2,488,759	\$ 3,467,510	\$ 4,732,289

- (a) Stormwater Utility rates were increased effective January 1, 2016. Because the City bills in two-month increments, the revenue increase will be more visible in the second quarter.
- (b) For the first time in two years, greater-than-expected first quarter grant funding (intergovernmental revenue) has been received.
- (c) Due to the submittal of a large multi-family development project in the first quarter of 2015, stormwater capital contributions collected to improve the infrastructure related to the high-impact project jumped exponentially over 2014. 2016 capital contributions dropped 3% less than average.

Economic Outlook Update

2016 Economy in Brief

- * U.S. seasonally adjusted (SA) existing home sales increased in March by 5.1% compared to February and were 1.5% above their year-ago level. New single family home sales in March decreased by 1.5% (SA) from their February level but remain 5.4% above their year-ago level.
- * U.S. employment increased by 215,000 net new jobs in March while Washington state added 9,000.
- * After declining in February, the Conference Board index of consumer confidence rebounded in March, increasing by 2.2 points to 96.2, but was 5.1 points lower than last March's measurement of 101.3.
- * Washington car and truck sales declined for a second consecutive month in March from January's post-recession high. Seasonally adjusted new vehicle registrations declined 3.7% in February to 327,600 and 5.7% in March to 309,000 (SAAR) from 340,300 in January. March 2016 registrations were still up 5.3% over March 2015.
- * In March, the U.S. Department of Commerce, Bureau of Economic Analysis (BEA) released preliminary annual state personal income estimates for 2015. Estimates showed Washington personal income rose to \$366.8 billion in 2015 from \$350.3 billion in 2014. The 4.7% increase in Washington personal income was the 11th largest among the states and District of Columbia and slightly exceeded the 4.4% increase for the U.S. as a whole.
- * Seattle home and shelter prices continue to increase.
- * February inflation in the Seattle area is 2.2% higher than the previous February.
- * Washington single family housing construction was stronger than expected in the first quarter while multi-family construction was weaker than expected.
- * Washington exports declined for the first time since 2009.

State and Local Economy

Employment

Based on a Bureau of Labor Statistics survey of businesses and governments, Washington added an estimated 98,200 jobs from March 2015 to March 2016 (not seasonally adjusted).

The private sector added an estimated 87,600 jobs; while public sector gained an estimated 10,600 jobs.

Overall, eleven industries expanded employment in March and two declined (mining/logging and manufacturing). The industry with the highest amount of jobs added is in professional and business services followed closely by retail trade.

	<u>March 2016</u>	<u>March 2015</u>
United States		
Unemployment Rate	5.0%	5.5%
Washington		
Unemployment Rate	5.8%	5.6%
Resident Labor Force	3,619,000	3,526,500
Unemployed	208,600	198,300
Seattle/Bellevue/Everett		
Unemployment Rate	4.9%	4.4%
Resident Labor Force	1,608,800	1,573,300
Unemployed	79,300	69,400
Issaquah		
Unemployment Rate	4.3%	3.5%
Resident Labor Force	19,352	19,067
Unemployed	823	669

Seattle home prices continue to rise rapidly and now exceed the 2007 peak!

(Continued from page 15)
 Issaquah's March unemployment rate was 4.3%, up from March 2015's rate of 3.5%. The City of Issaquah finds itself in the middle of the pack of local cities' unemployment rates with Kirkland coming in lowest at 4.1% and Des Moines highest at 5.7%.

\$1,231 to \$1,343 (9.1%). The King-Central sub-region has the highest overall rent in the region, currently averaging \$1,766/month, up 7.0% over the past year. The King/Eastside sub-region has the second highest overall rent, currently averaging \$1,716/month, up 9.2% over the past year.

A significant portion of the increases can be attributed to the higher prices of new units delivered over the past three years.

(Source: Washington State Economic & Revenue Forecast Council, April 11, 2016 and 1st Quarter 2016 Kidder Mathews Real Estate Market Review covering King, Pierce, Snohomish, Thurston and Kitsap Counties.)

(Sources: Washington State Employment Security Department, Monthly Employment Report for March 2016 and the US Bureau of Labor Statistics)

Housing

Seattle area home prices continue to rise rapidly and now exceed the 2007 peak.

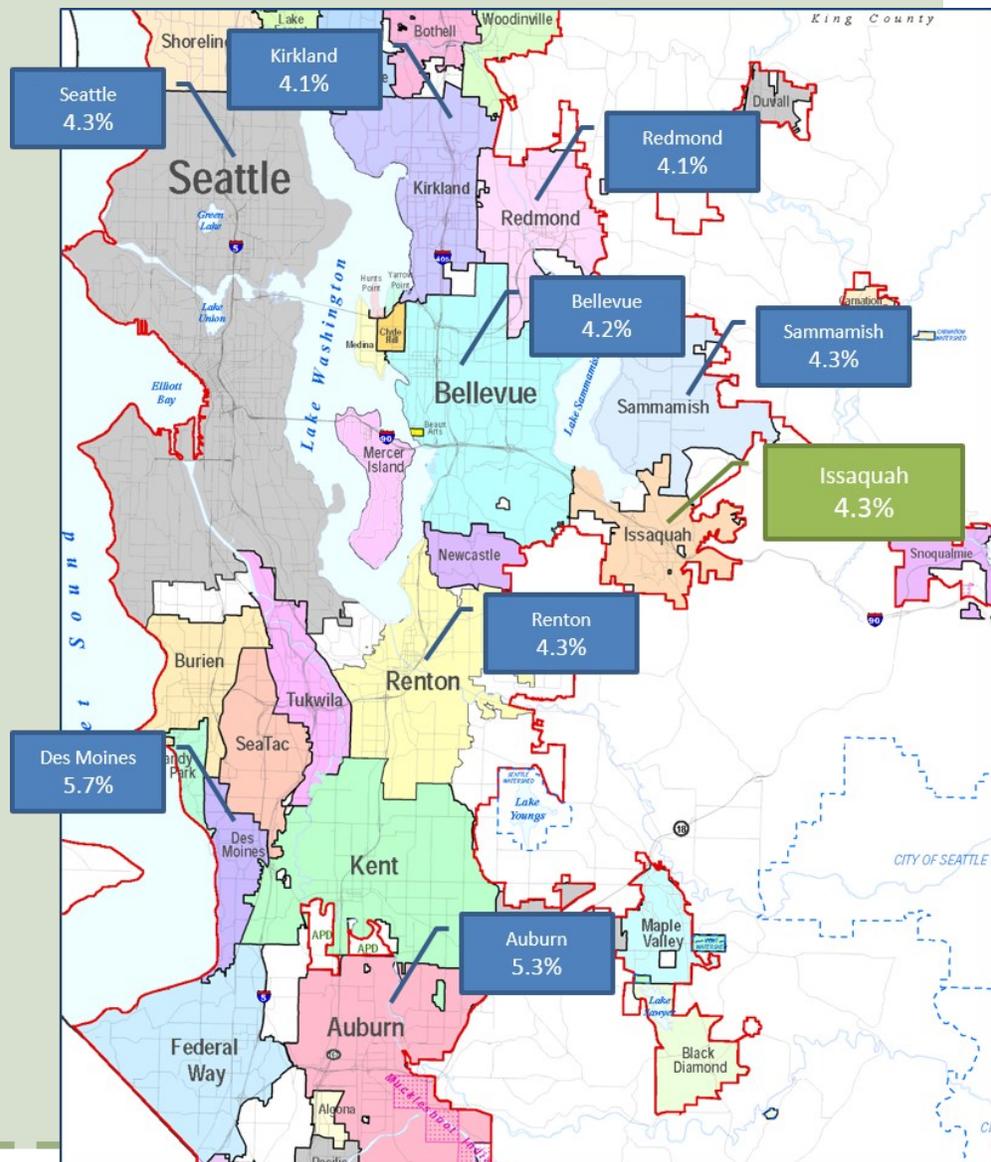
According to the S&P/Case-Shiller Home Price Indices, Seattle area home prices (SAAR) increased 1.3% in February and are up 10.9% over the previous February.

Seattle area home prices have declined only once (last May) since the trough in November 2011. Prices have gained 47% since that low-price trough and now exceed the May 2007 peak by 2.1%.

According to the Kidder Mathews First Quarter 2016 Real Estate Market Review, the apartment market was the first housing category to recover from the recession.

Over the past twelve months the average regional rent increased from

Local Area Unemployment - March 2016 (US Bureau of Labor Statistics)



Year-to-date Residential Units Added in Issaquah

Type of Unit	2012	2013	2014	2015	2016
Single-Family	35	28	23	36	32
Multi-Family	0	0	21	415	6

Single-family permits, however, averaged 22,300 units in first quarter, up from 21,200 units in the fourth quarter and higher than the 20,400 units forecasted for the first quarter. The number of single-family units permitted in the first quarter was the highest since the fourth quarter of 2007.

(Continued from page 16)

Construction

Washington single-family housing construction was stronger than expected in the first quarter while multi-family construction was weaker than expected.

According to the Washington State Economic and Revenue Forecast Council, total housing permits averaged 37,600 units (SAAR) in the first quarter, down slightly from 38,000 in the fourth quarter of 2015. Their February forecast expected an average rate of 37,400 units for the first quarter.

Multi-family permits averaged 15,300 units in the first quarter, down from 16,800 units in the fourth quarter and lower than the 17,000 expected in the February forecast.

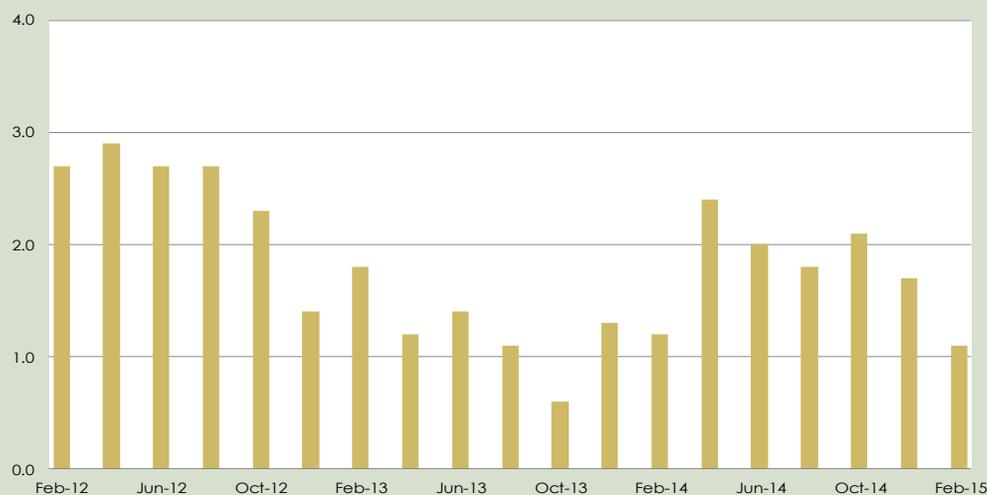
Locally, residential permitting activity showed similar trends with single-family permit activity outpacing

Year-to-Date Building Permit Activity in Issaquah

Permit Type	2012	2013	2014	2015	2016
Single-Family					
New	35	28	23	36	32
Alterations	13	11	13	21	12
Multi-family:					
New	0	0	5	13	1
Alterations	3	0	10	11	4
Commercial:					
New	2	9	3	1	1
Alterations	21	39	30	27	13

multi-family, although both were down from first quarter 2015 with multi-family considerably lower than 2015.

Consumer Price Index (CPI-U) - Historical Trend



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

Inflation

Seattle area consumer price inflation remains moderate thanks to declining energy costs. Over the last year, from February 2015 to February 2016, consumer prices in the Seattle area rose 2.2% compared to 1.0% for the U.S. city average.

(Continued on page 18)

**Number of Active
Issaquah
Business Licenses**

2012	4,715
2013	4,772
2014	5,078
2015	5,594
2016**	5,614

**3,074 active licensees file B&O Tax returns annually, compared to 2,214 annual filers in 2015.

(Continued from page 17)

Core prices, which exclude food and energy, were up 2.8% in Seattle compared to 2.3% 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 5.6% compared to 3.3% for the nation. However, even with shelter excluded, Seattle inflation was higher at +0.4% compared to -0.2% for the U.S. city average.

(Sources: US Bureau of Labor Statistics, March 16, 2016 news releases for Seattle and All Cities)

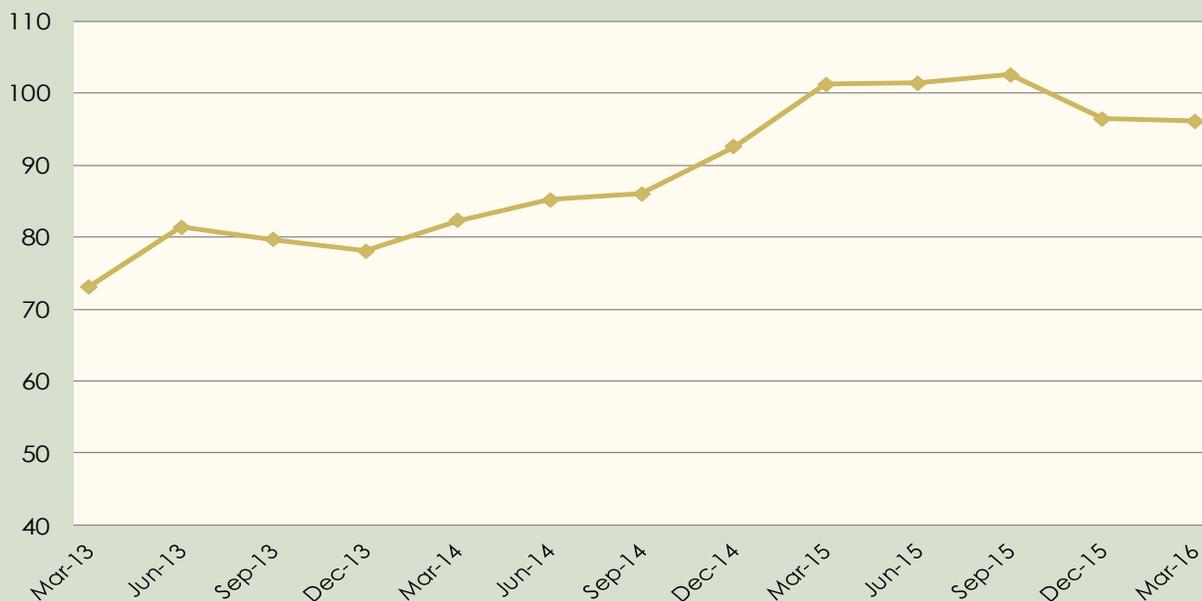
Risks to Economic Recovery

Risks to the local economy are generally from factors outside the state. These risks include:

- * **Negative Impact of Strong Dollar on Exports.** Washington exports in 2015 declined for the first time since 2009.
- * **Slowing Global Economy.** Weak growth in Europe and China remains a threat to the U.S. economy.
- * **Slower US GDP (Gross Domestic Product) Growth.**
- * **Continuing geopolitical turmoil.** Unrest in the Middle East and Eastern Europe increase uncertainties.
- * **Stock market volatility.**
- * **Weaker Manufacturing Activity.**

(Source: Washington State Economic & Revenue Forecast Council March 30, 2016 presentation to Key Private Bank Northwest Nonprofit Forum)

Consumer Confidence - Historical Trend



Conference Board Consumer Confidence Index