

MEMORANDUM

TO: City Council

FROM: John J. Caulfield, City Manager
Sonja Springer, Finance Director

DATE: November 15, 2010

SUBJECT: **Quarterly Financial Report
Third Quarter -- January through September 2010**

Overview

This report is intended to provide an overview of financial activity that has taken place from January 1, 2010 through September 30, 2010. The City's finances are divided into three key components: General Government Funds, Capital Improvement Funds and Utility Funds. The financial report focuses mainly on activity incurred in the following funds: General, Street and Recreation as well as the City's Capital Improvement Funds, Utility Funds, and Ending Fund Balances/Reserves.

The Summary of Sources and Uses (Attachment A) captures financial activity by fund through September 2010. This report includes all of the City's 19 funds, as well as the beginning and ending fund balances of each fund and historical detail back to 2006. The report also reflects the 2010 budget carry-forward amendments that were considered and adopted by the Council in May, 2010. Attachment B details the revenue and expenditure activity associated with the City's municipal court and jail services activity for the years 2005 through 2010. Attachment C details performance measurement activity for the years 2005 through 2010.

In summary, activity through third quarter 2010 was another successful quarter for the City of Mountlake Terrace, both from an operational perspective and financial one, which reflects sound financial and management policies practiced by the City. Overall, most financial projections are tracking consistent with the 2010 budget and the six-year financial forecast.

Mountlake Terrace Receives High Credit Rating

In a report issued on August 4, the Standard & Poor's (S&P) has assigned its 'AA' Rating to the city's 2010 series water and sewer revenue bonds that Council authorized on August 16. The only ratings higher are "AAA" and "AA+" which few municipalities have achieved.

S&P assigned the city a 'AA' rating with a stable outlook, noting that the city has sound financial policies and practices, including quarterly financial performance reviews and a six-year forecasting model. The city's first-ever rating by Standard & Poor's, a 'AA' rating indicates the city is a quality borrower with very strong capacity to meet its financial commitments. The S&P report commends the city for its resourcefulness in responding to changing conditions. The report states, "The stable outlook reflects what we believe is a robust and institutionalized array of management practices that provide a framework for the utility to identify and respond to unexpected financial challenges."

The S&P Analyst told city officials that the city stands out on management and the fact that the city monitors itself on a quarterly basis is significant. The Analyst also reported that the city is clearly different than the city of three or so years ago.

The 'AA' Bond Rating, which is an extraordinary achievement for our city, will translate into lower financing costs by attracting a broader range of investors. This rating is also a positive reflection of the city's effectiveness in managing its financial resources during one of the most difficult economic times in several generations.

Annual Audit

Our 2009 audit, in partnership with the State Auditor's Office (SAO) is completed. We once again prepared a Comprehensive Annual Financial Report (CAFR) for 2009, which goes beyond the financial reporting, required by both the SAO and those, required as part of generally accepted accounting principles (GAAP). Similar to previous years, the City has received a clean audit opinion for 2009.

The result of this increased financial reporting is that for three years in a row, the City has been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA) for our 2006, 2007, and 2008 comprehensive annual financial reports (CAFRs). The Certificate of Achievements recognizes the City for its excellence in financial reporting and is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by the City. The CAFR demonstrates a constructive "spirit of full disclosure" to clearly communicate the City's financial story and motivates potential users and user groups to read the CAFR.

Executive Summary

By the end of this year, the City of Mountlake Terrace will have endured 36 months (December 2007-December 2010) of the most difficult financial times in generations.

However, our community is in an enviable position of being to maintain basic municipal services as long as we continue with the prudent financial discipline the City Council has implemented, such as having a balanced budget, staying the course with our six-year financial forecast and a continued focus to live within our means.

This "Great Recession" is certainly taking its toll on all segments of our economy and will continue to do so for the foreseeable future. Even when economic activity begins to improve, the financial crisis facing local government will continue for years; it may take 5-10 years for the economy to return to its vibrant form of the mid-2000's.

Nationally, regionally and locally, sizeable budget shortfalls are expected to grow much more severe and widespread in 2011, 2012 and beyond. In response to continuing declining economic conditions and the prospect of budget shortfalls, cities are laying off employees by the thousands, reducing and eliminating key municipal services, delaying or canceling infrastructure projects, and making cuts to public safety services.

The good news is that our City has become well accustomed to delivering much more for less; indeed, we have, thus far, more than adequately responded to this challenge. Our City has cultivated a new culture of strategic leadership that no longer subscribes to the old saying,

‘That’s the way we always did it.’ Rather we’ve become more efficient in our spending practices, delivering efficiency savings on a regular basis to combat the continued uncertainty.

Our residents and businesses can look to the City with confidence to provide the infrastructure and the range of services desired by our community. We have also been able to go above basic services and expand our capital improvement and economic development programs so that we are well-positioned to accommodate redevelopment and revitalization opportunities in the community when the economy improves.

We have maintained fiscal discipline while maintaining services during the most turbulent times in recent history primarily because the City has taken a proactive approach to mitigate the downward trend in revenue collections. For example, the City continues to proactively pursue state and federal funding to upgrade our aging infrastructure with new construction, which in turn reduces what residents have to pay locally. As a result, the City has leveraged almost \$5.0 million in outside federal and state funding for capital improvements. The City also continues to focus on a wide range of private, public and transit economic development initiatives that all serve as catalysts for the revitalization of our community, particularly in the Town Center. This level of development activity in our city, even in an economic downturn as severe as this one, reflects very positively upon our community.

The work and partnerships the City is undertaking today will provide the foundation for reinvestment when the next economic cycle begins. These investments and the generation of new revenues from redevelopment and revitalization in our community will bolster the City’s ability to continue to provide top-notch municipal services for which our community has become accustomed.

Of course, Mountlake Terrace is no exception as the economic recession continues to negatively impact City revenues, particularly General Fund revenues, which funds key municipal services such as police, jail, court, fire, EMS, streets, parks, and community and economic development. Even though we have been holding our own since economic conditions took a turn for the worse in late 2007, revenue collections have declined almost \$1.1 million or 7.1% between 2006 and 2009, reflecting the impact the recession is having on our finances.

Even though we continue to meet our operational objectives and our financial objectives through September 2010, our general fund operating revenues are under budget by \$373,032 or 3.4%. On the other hand, operating expenditures savings are under budget by \$618,618 or 5.6% more than offsetting the slower than anticipated revenue collections.

It is imperative that we continue with our proactive approach on controlling costs since revenue collections are not expected to increase or recover anytime in the near future. We will continue with a focus on controlling costs along with others we implemented in mid-2008 to mitigate the impact of the recession to ensure we meet our key operational and financial objectives in 2010 and beyond just as we did in 2008 and 2009.

We will accomplish this by maintaining a balanced budget; a 6-year financial forecast; an aggressive and proactive capital improvement plan; strong reserves; and the adherence to our financial policies. These steps, which are a positive reflection upon our community and organization, will continue to ensure services to our residents will not have to be reduced.

General Government Funds

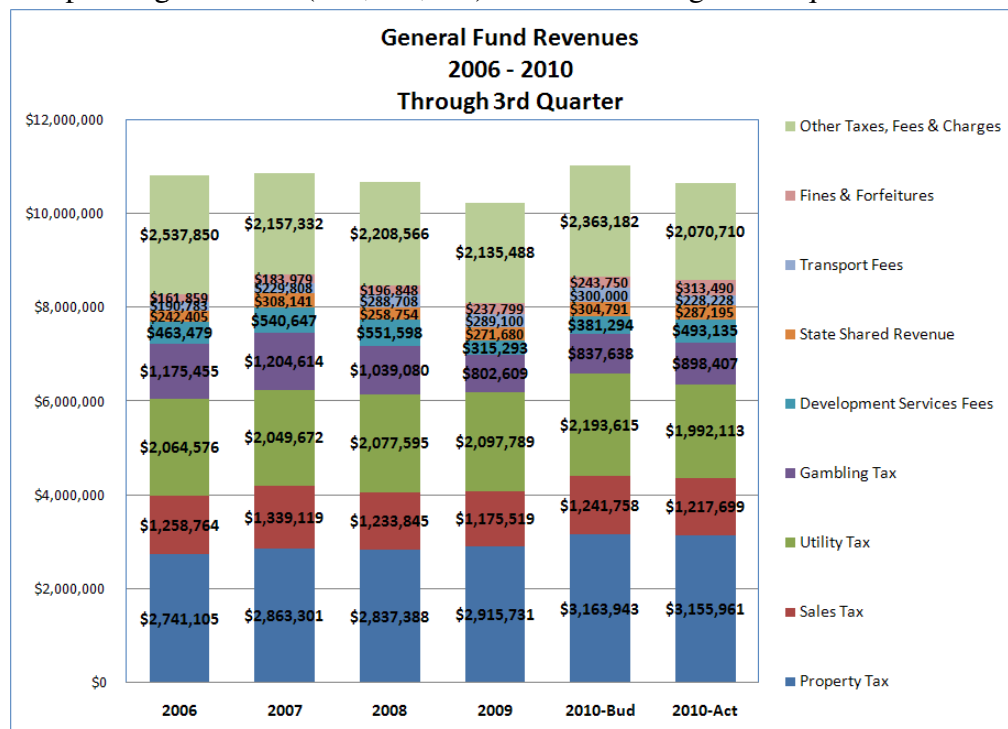
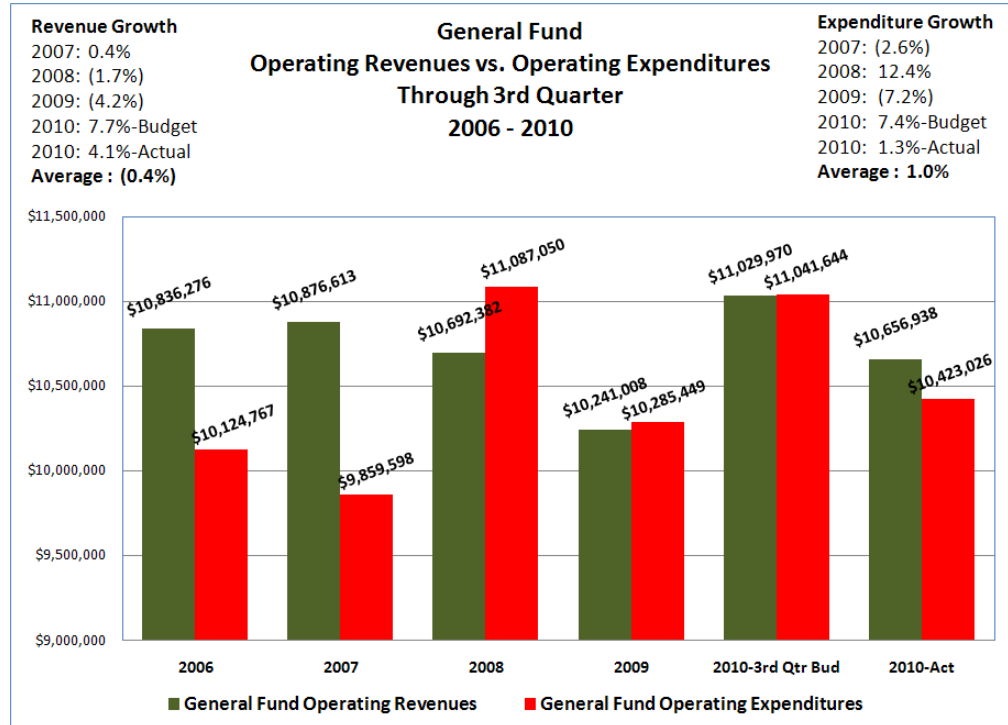
General Government Funds, which accounts for municipal services such as police, jail, court, fire, EMS, streets, parks, recreation, land use and zoning, planning, development services, debt service, and general administration such as finance, information services and community

outreach and information consists of the following funds: General; Street Operations; Recreation; Debt Service; Strategic Reserve; Fleet Management; Hotel/Motel Tax; Solid Waste Service; and Accumulated Leave Reserve.

Revenues

Overall, General Fund operating revenues (\$10,656,938) collected through third quarter 2010 is below the budget estimate (\$11,029,970) by \$373,032 or 3.4%. However, the shortfall is more than offset by operating department expenditures savings. Compared with 2009 collections (\$10,241,008), operating revenues have increased \$415,930 or 4.1%, due primarily to

voter-approved EMS levy from November 2009, increased fines and forfeitures, increased development services fees, and an uptick in gambling tax collections.



Resources by Fund					2010			Change (bud vs. act)	
					Budget				
	2006	2007	2008	2009	Annual	3rd Quarter	Actual	\$	%
General Government									
Beginning Fund Balances	\$ 9,464,261	\$ 9,329,323	\$ 7,613,507	\$ 6,740,438	\$ 5,437,458	\$ 5,437,458	\$ 5,437,458	\$ -	0.0%
General									
Property Tax	3,722,059	3,722,182	3,787,483	3,859,928	4,218,591	3,163,943	3,155,961	(7,982)	-0.3%
Sales Tax	1,704,801	1,736,581	1,712,184	1,648,902	1,700,000	1,241,758	1,217,699	(24,059)	-1.9%
Utility Tax	2,700,443	2,823,206	2,897,238	2,896,446	3,046,687	2,193,615	1,992,113	(201,502)	-9.2%
Gambling Tax	1,681,265	1,609,601	1,338,964	1,036,730	1,116,850	837,638	898,407	60,770	7.3%
Other Taxes	141,588	138,687	138,814	75,458	124,000	93,000	66,164	(26,836)	-28.9%
Business & Animal Licenses	127,184	139,758	151,698	103,870	148,891	111,668	80,513	(31,155)	-27.9%
Development Services Fees	638,875	661,820	515,504	556,047	508,392	381,294	493,135	111,841	29.3%
Cable & Solid Waste Franchise Fees	431,546	466,090	666,366	427,758	497,472	373,104	392,613	19,509	5.2%
State Shared & Intergov't	569,274	521,996	532,413	487,837	694,255	441,003	402,085	(38,918)	-8.8%
Transport Fees	270,067	311,483	377,845	377,134	400,000	300,000	228,228	(71,772)	-23.9%
Fines & Forfeitures	242,439	263,760	295,775	330,563	325,000	243,750	313,490	69,740	28.6%
Other Fees & Charges	2,411,950	1,769,874	1,734,268	1,882,852	1,983,930	1,487,948	1,394,235	(93,713)	-6.3%
Investment Income	211,529	307,416	190,364	117,668	215,000	161,250	22,295	(138,955)	-86.2%
Total General Fund Operating Revenues	14,853,020	14,492,454	14,338,916	13,801,193	14,979,068	11,029,970	10,656,938	(373,032)	-3.4%
Street Operating	367,879	379,475	358,187	343,282	348,974	261,731	245,629	(16,102)	-6.2%
Recreation	2,583,003	2,502,136	2,696,972	2,607,733	3,002,000	2,251,500	2,159,197	(92,303)	-4.1%
Debt Service	201,204	192,197	168,371	9,376	3,000	2,250	9,291	7,041	312.9%
Total General Govt Operating Revenues	18,005,106	17,566,262	17,562,446	16,761,584	18,333,042	13,545,451	13,071,055	(474,396)	-3.5%
Other Financing Sources									
Strategic Reserve	35,297	43,246	35,556	25,492	30,000	12,983	12,983	-	0.0%
Fleet Management	769,249	775,957	825,413	727,802	762,605	380,740	380,740	-	0.0%
Hotel/Motel Tax	26,775	21,985	27,072	23,304	22,500	13,292	13,292	-	0.0%
Solid Waste Service	17,500	17,500	-	17,500	17,500	13,125	13,125	-	0.0%
Accumulated Leave Reserve	29,337	21,972	10,226	6,959	12,000	9,000	4,372	(4,628)	-51.4%
General	438,680	209,110	98,938	40,077	20,000	15,000	50,575	35,575	237.2%
Street Operating	542,851	247,918	476,132	427,100	506,083	379,562	316,544	(63,018)	-16.6%
Recreation	604,854	696,617	682,363	622,229	571,164	428,373	344,887	(83,486)	-19.5%
Debt Service	628,825	623,700	637,407	846,613	441,846	315,092	315,092	-	0.0%
Fleet Management	3,911	-	35,948	79,455	86,500	72,308	72,308	-	0.0%
Total Other Financing Sources	3,097,279	2,658,005	2,829,055	2,816,531	2,470,198	1,639,475	1,523,918	(115,557)	-7.0%
Total All General Government Funds	\$30,566,646	\$29,553,590	\$28,005,008	\$26,318,553	\$26,240,699	\$20,622,384	\$20,032,431	\$ (589,953)	-2.9%

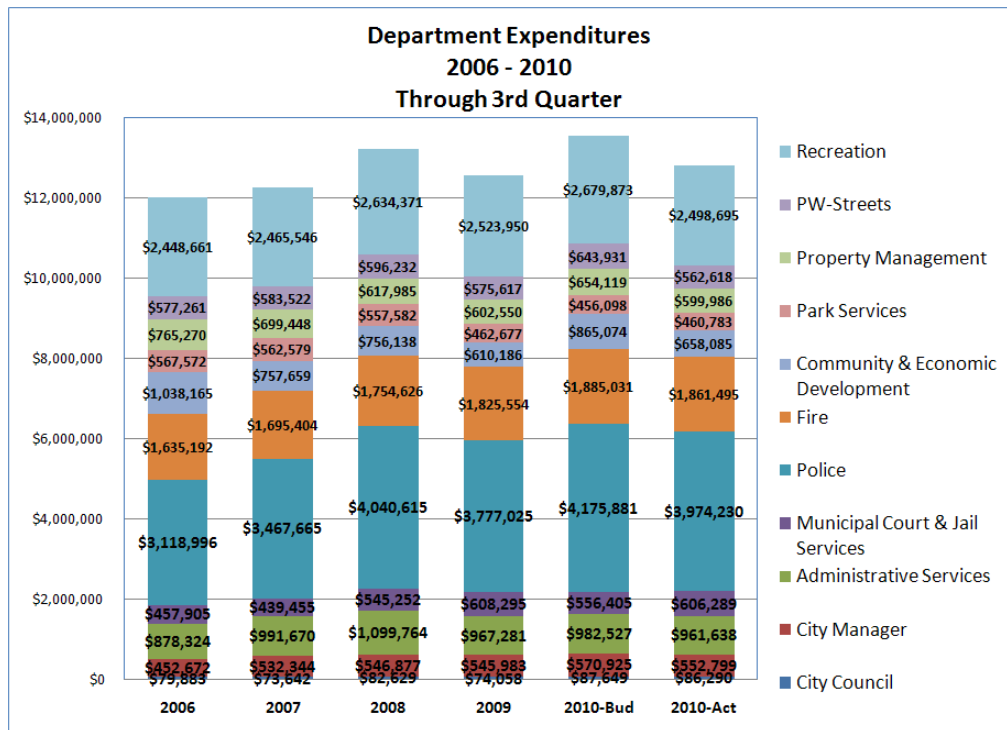
Total general government sources (\$20,032,431) are below the budget estimate (\$20,622,384) by \$589,953 or 2.9%. However, the shortfall is offset by expenditures savings. The lower than anticipated collections to the Street Operating Fund and Recreation Fund under other financial sources is reflective of the cost savings being generated by the Public Works Department and Recreation Department, the result which is a lower than projected General Fund transfers to those two funds. The Recreation Pavilion, buoyed by a combination of increased fees and cost savings achieved a cost recovery totaling 86% through third quarter 2010 resulting in a reduced General Fund transfer totaling \$83,486. The Public Works Department achieved cost savings totaling \$63,018.

Expenditures

General Fund operating expenditures (\$10,423,026) through third quarter 2010 are below the budget estimate (\$11,041,644) by \$618,618 or 5.6%, which offsets the lower than anticipated general fund revenue collections. Likewise, total general government expenditures (\$15,289,831) are below the budget estimate (\$16,143,567) by \$853,736 or 5.3%, which also offsets the lower than anticipated general government revenue collections. These savings are attributable to the financial prudence being practiced by our department directors and their staff and include the elimination of all discretionary spending such as supplies, travel, training, overtime, equipment, temporary help, and non-essential positions. Compared with 2009 general fund expenditure activity (\$10,285,449), operating expenditures have increased \$137,577 or 1.3%.

Expenditures by Fund	2010							Change (bud vs. act)	
					Budget				
	2006	2007	2008	2009	Annual	3rd Quarter	Actual	\$	%
General Government									
General									
City Council	incl with CM	\$ 96,659	\$ 104,753	\$ 92,979	\$ 103,117	87,649	\$ 86,290	\$ (1,359)	-1.6%
City Manager	707,667	671,925	719,173	696,687	713,656	570,925	552,799	(18,126)	-3.2%
Administrative Services	1,269,046	1,374,134	1,460,074	1,331,808	1,310,036	982,527	961,638	(20,889)	-2.1%
Municipal Court & Jail Services	708,455	673,956	710,570	794,770	741,873	556,405	606,289	49,884	9.0%
Police	4,285,179	4,527,696	5,171,253	4,996,051	5,567,841	4,175,881	3,974,230	(201,651)	-4.8%
Fire	2,156,172	2,224,941	2,289,888	2,411,618	2,513,375	1,885,031	1,861,495	(23,536)	-1.2%
Community & Economic Development	1,437,758	1,034,661	1,038,427	831,051	1,153,432	865,074	658,085	(206,989)	-23.9%
Park Services	772,235	688,783	752,220	630,125	608,130	456,098	460,783	4,686	1.0%
Property Management	1,074,654	910,583	860,196	808,120	872,159	654,119	599,986	(54,133)	-8.3%
Oper Transfer Out-Debt Svc	336,489	296,450	310,157	-	-	-	-	-	n/a
Oper Transfer Out-Streets	542,851	247,918	476,132	427,100	506,083	379,562	316,544	(63,018)	-16.6%
Oper Transfer Out-Recreation	419,854	511,617	497,363	437,229	386,164	289,623	206,137	(83,486)	-28.8%
Oper Transfer Out- Rec Debt Svc	185,000	185,000	185,000	185,000	185,000	138,750	138,750	-	0.0%
Total General Fund	13,895,360	13,444,323	14,575,206	13,642,538	14,660,866	11,041,644	10,423,026	(618,618)	-5.6%
Operating Surplus/(Deficit)	957,660	1,048,131	(236,290)	158,655	318,202	(11,674)	233,912	245,586	-2103.8%
Street Operating	905,215	808,987	825,968	777,237	858,574	643,931	562,618	(81,313)	-12.6%
Recreation	3,208,442	3,202,052	3,333,259	3,255,891	3,573,164	2,679,873	2,498,695	(181,178)	-6.8%
Debt Service	823,478	822,448	805,778	454,965	493,038	123,964	123,964	-	0.0%
Total General Government Funds	18,832,495	18,277,810	19,540,211	18,130,631	19,585,642	14,489,412	13,608,303	(881,109)	-6.1%
Other Financing Uses									
Fleet Management	628,542	763,253	823,547	1,568,298	1,217,451	913,088	936,961	23,873	2.6%
Hotel/Motel Tax	19,302	25,000	25,000	28,105	24,880	24,880	28,380	3,500	14.1%
Solid Waste Service	25,199	14,231	21,097	30,345	30,426	20,777	20,777	-	0.0%
Accumulated Leave Reserve	-	500,000	59,568	-	-	-	-	-	n/a
General	1,324,703	2,359,789	795,147	823,716	1,021,733	687,910	687,910	-	0.0%
Strategic Reserve	419,407	-	-	300,000	10,000	7,500	7,500	-	0.0%
Other Financing Uses	2,417,153	3,662,273	1,724,359	2,750,464	2,304,490	1,654,155	1,681,528	27,373	1.7%
Total All General Government Funds	\$21,249,648	\$21,940,083	\$21,264,570	\$20,881,095	\$21,890,132	\$16,143,567	\$15,289,831	\$ (853,736)	-5.3%

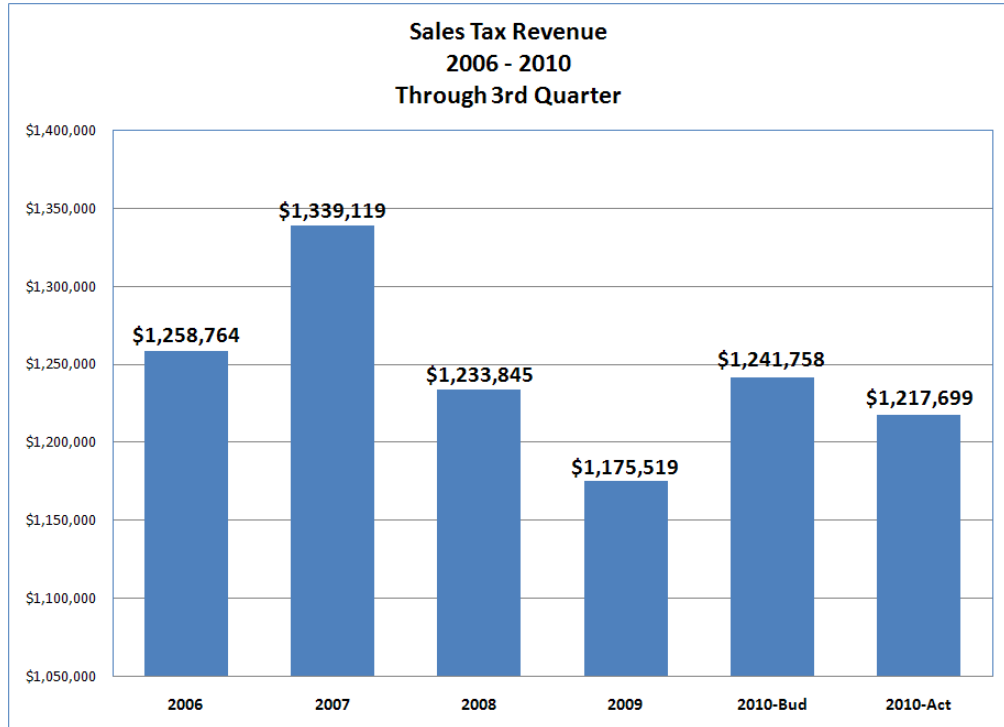
All city departments are within their allocated 2010 budgets, with the exception of municipal court services due primarily to increased court activity that is offset with increased fines and forfeitures (see Attachment B). Operating transfers to the Street Operating Fund and Recreation Fund are below



budget, reflecting again the financial prudence being practiced by department directors and their staff. The result is that while our major 2010 revenue collections continue to slow, particularly sales tax and utility tax, we have put in measures that are working to ensure: 1) we live within our means; 2) we maintain an positive operating surplus (no use of one-time funds for ongoing programs and services); 3) we attain our bottom-line financial objectives to ensure the financial integrity and stability of the City; and 4) we ensure that basic municipal services that are provided to our citizens are not reduced.

Local Retail Sales Tax

The following graph and table summarize local retail sales tax revenue. Sales tax collections lag two months. For August sales activities, the City accrues sales tax revenue in September, and the City receives cash in October.



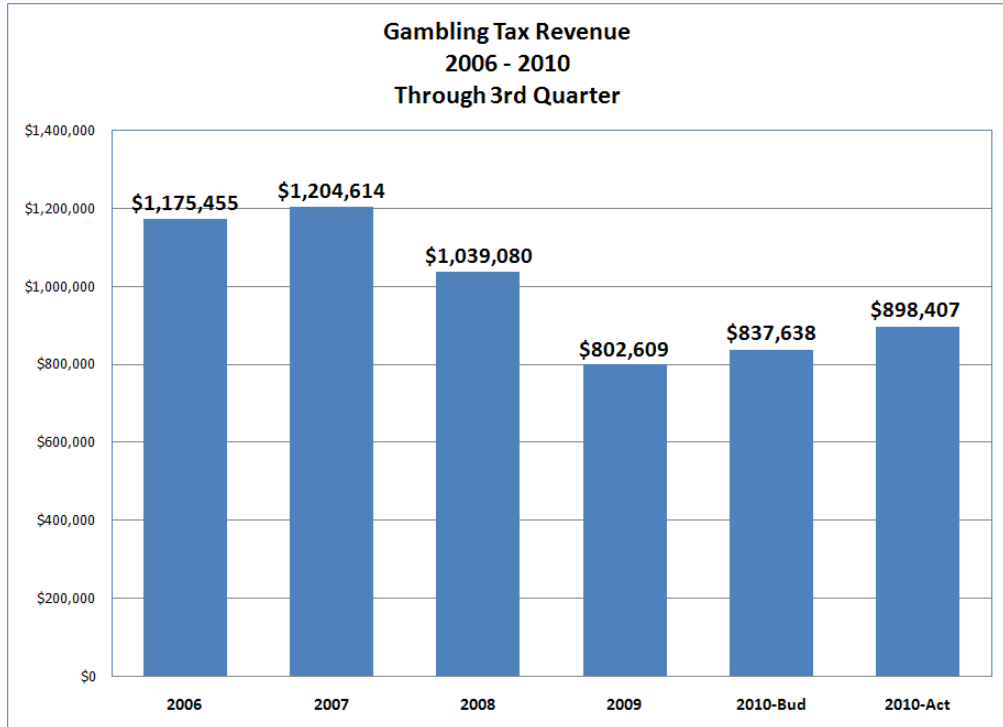
Actual sales tax proceeds through September 2010 total

\$1,217,699, which is \$24,059 or 1.9% below the budget estimate (\$1,241,758). This shortfall is a result of the current recession that began in December 2007, again reflecting the weak economic climate locally, regionally and nationally. Compared to collections through third quarter 2009 (\$1,175,519), sales tax collections have increased \$42,180 or 3.6%. However, we still lag far behind collections through third quarter for 2006 through 2008.

Sales Tax Month	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
January	\$ 137,110	\$ 156,986	\$ 106,774	\$ 140,444	\$ 130,505	\$ 117,297	\$ (13,208)	-10.1%
February	123,338	194,488	111,126	116,477	131,975	127,379	(4,596)	-3.5%
March	143,207	148,208	178,228	125,946	145,629	144,424	(1,205)	-0.8%
April	131,338	130,211	133,987	128,375	130,473	125,573	(4,900)	-3.8%
May	138,482	123,979	123,005	129,478	127,241	121,399	(5,842)	-4.6%
June	151,226	161,593	153,441	132,794	153,642	154,183	541	0.4%
July	138,361	126,952	139,119	132,444	131,989	140,442	8,453	6.4%
August	140,179	133,653	132,166	122,100	131,458	134,787	3,329	2.5%
September	155,523	163,049	155,999	147,461	158,845	152,215	(6,630)	-4.2%
October	129,513	134,858	137,937	131,981	132,685			
November	128,789	125,128	134,084	115,908	131,151			
December	187,735	157,476	206,318	225,494	194,406			
Total	\$ 1,704,801	\$ 1,756,581	\$ 1,712,184	\$ 1,648,902	\$ 1,700,000	\$ 1,217,699	\$ (24,059)	-1.9%

Gambling Tax

The following graph and table summarizes gambling tax revenue collections for third quarter between 2006 and 2010. Through third quarter 2010, gambling tax collections totaled \$898,407, which is \$60,769, or 7.3% above the budget estimate (\$837,638).



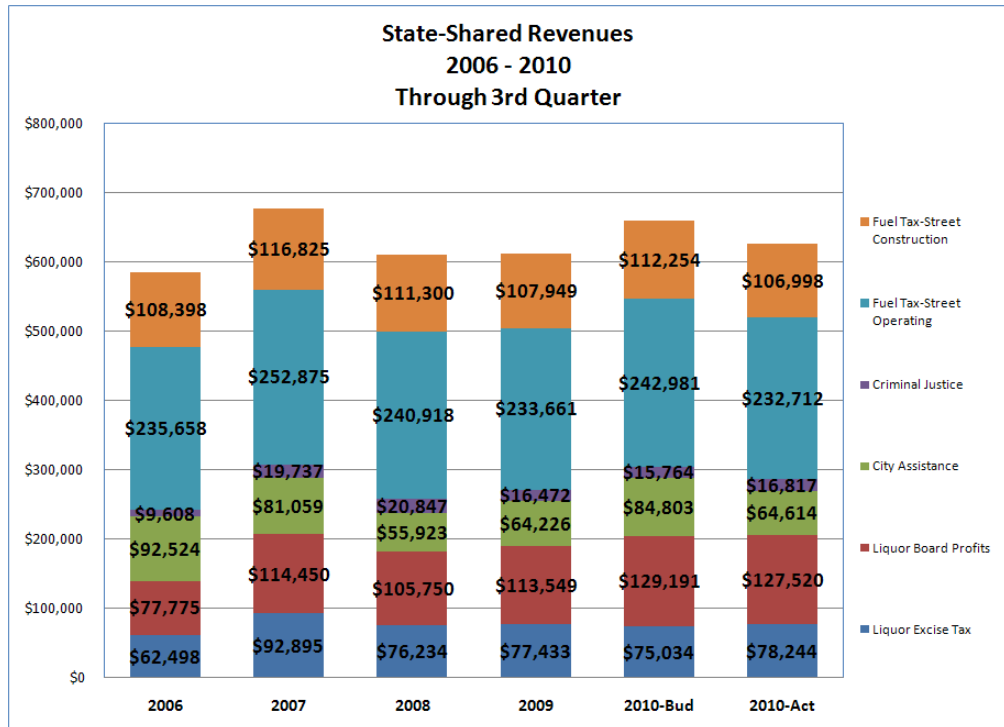
Compared to third quarter 2009 activity (\$802,609), gambling tax collections have increased \$95,798, or 11.9%. While we are achieving our budget projections for this very volatile general fund revenue, we still lag far behind collections through third quarter for 2006 through 2008.

Of particular concern is the City's reliance on gambling taxes for basic municipal services – an estimated total of 10% of General Fund revenue and 8% of total operating revenue. Because of the uncertainty of this revenue source, as is evident by the closure of a casino in 2008 and the current economic downturn, we need to look for other revenue; otherwise municipal services will be impacted in the near future.

Gambling Taxes	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
<i>Gambling Business</i>								
Crazy Moose Casino	\$ 380,591	\$ 431,140	\$ 396,491	\$ 388,552	\$ 417,000	\$ 473,742	\$ 56,742	13.6%
Red Dragon Casino	366,814	392,100	353,022	289,309	300,000	315,391	15,391	5.1%
Silver Dollar Casino	243,767	226,986	150,824	-	-	-	-	n/a
Seattle Junior Hockey	119,907	103,374	85,496	63,438	69,000	59,309	(9,691)	-14.0%
Other Restaurants, Pubs	64,376	51,014	53,247	61,310	51,638	49,965	(1,673)	-3.2%
Total Gambling Business	\$ 1,175,455	\$ 1,204,614	\$ 1,039,080	\$ 802,609	\$ 837,638	\$ 898,407	\$ 60,769	7.3%

State-Shared Revenues

The following graph and table presents a comparison of State-Shared revenues received for third quarter between 2006 and 2010. State-shared revenues totaled \$626,905 through third quarter 2010, which is \$33,121, or 5.0% below the budget estimate (\$660,026). The decrease is attributable again to current economic conditions.



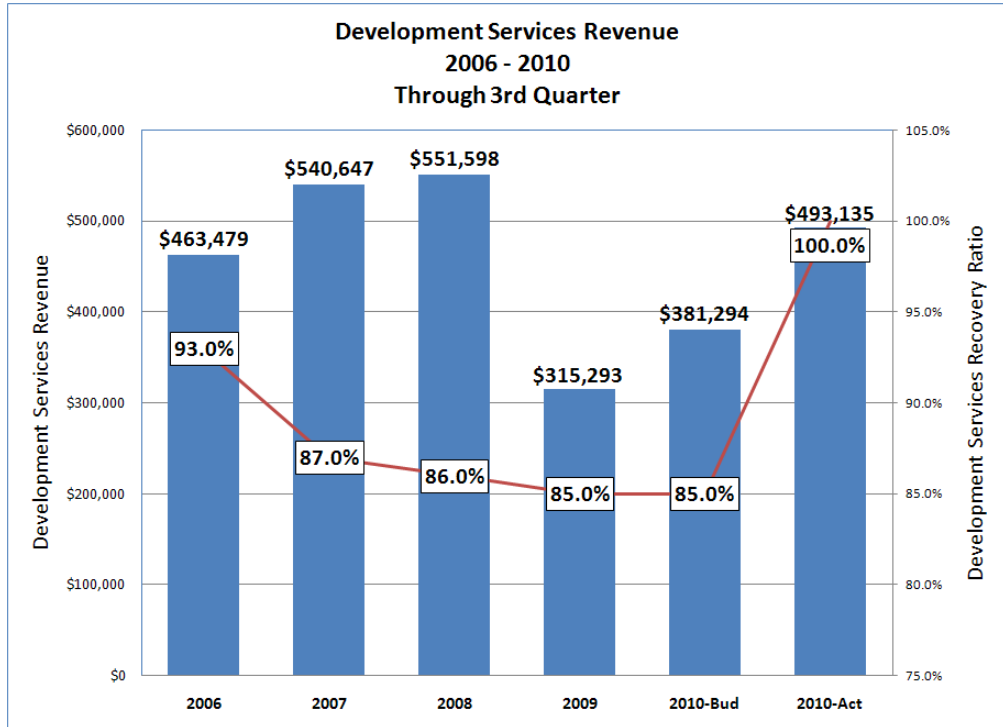
For example, City Assistance funds come from a portion of the State's real estate excise tax. The State's REET collections have been negatively impacted due to the current economic conditions – the result is less City Assistance funds. Similarly, fuel tax dollars that are required by state law to be used for street operations and construction are below projections due to a decrease in fuel consumption. However, the decrease in fuel tax receipts is offset with additional revenues dedicated specifically for street construction (e.g., unanticipated state & federal funds and investment income) as well as operational savings in the Public Works Department.

On the positive side, state-shared revenue collections as compared to third quarter 2009 activity (\$613,290) have increased \$13,615, or 2.2%, though they still lag compared to collections through third quarter 2007, which was the most recent peak for state-shared revenue collections.

State-Shared Revenues Source	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
General Fund								
Liquor Excise Tax	\$ 62,498	\$ 92,895	\$ 76,234	\$ 77,433	\$ 75,034	\$ 78,244	\$ 3,210	4.3%
Liquor Board Profits	77,775	114,450	105,750	113,549	129,191	127,520	(1,671)	-1.3%
City Assistance	92,524	81,059	55,923	64,226	84,803	64,614	(20,189)	-23.8%
Criminal Justice	9,608	19,737	20,847	16,472	15,764	16,817	1,054	6.7%
Total General Fund	\$ 242,405	\$ 308,141	\$ 258,754	\$ 271,680	\$ 304,791	\$ 287,195	\$ (17,596)	-5.8%
Street Operating Fund								
Fuel Tax-Street Operating	235,658	252,875	240,918	233,661	242,981	232,712	(10,269)	-4.2%
Total Street Operating Fund	\$ 235,658	\$ 252,875	\$ 240,918	\$ 233,661	\$ 242,981	\$ 232,712	\$ (10,269)	-4.2%
Street Construction Fund								
Fuel Tax-Street Construction	108,398	116,825	111,300	107,949	112,254	106,998	(5,256)	-4.7%
Total Street Construction Fund	\$ 108,398	\$ 116,825	\$ 111,300	\$ 107,949	\$ 112,254	\$ 106,998	\$ (5,256)	-4.7%
Total State-Shared Revenue	\$ 586,461	\$ 677,841	\$ 610,972	\$ 613,290	\$ 660,026	\$ 626,905	\$ (33,121)	-5.0%

Development Services Fees

The following graph and table illustrate development services activity to include building permits, engineering, and plan check/zoning fee activity for third quarter between 2006 and 2010. These fees fund the City's development services program, since the General



Fund currently does not have the financial capacity to subsidize these costs

Overall, development services fees collected through third quarter 2010 totaled \$493,135, which is \$111,841 or 29.3% above the budget estimate (\$381,294). Compared with 2009 activity (\$315,293), development services fee revenue has increased \$177,842 or 56.4%.

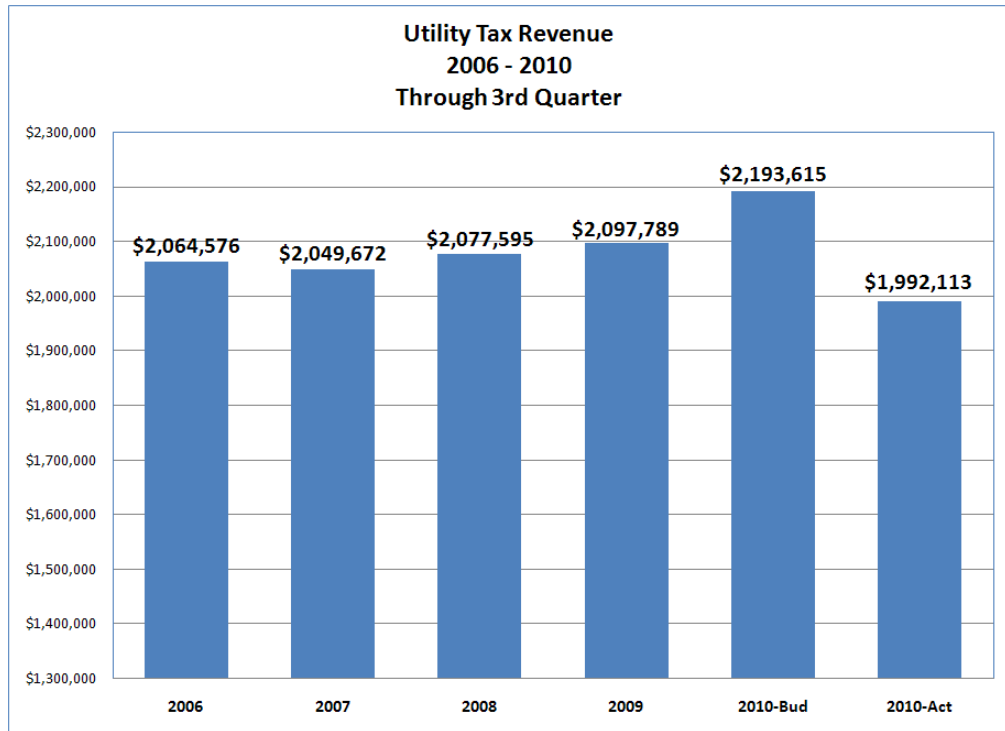
Development Services Source	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
Building Permits	\$ 190,663	\$ 160,472	\$ 124,788	\$ 144,529	\$ 150,000	\$ 225,217	\$ 75,217	50.1%
Engineering Fees	156,245	166,503	82,753	52,852	75,000	132,082	57,082	76.1%
Plan Check/Zoning Fees	116,571	213,672	344,057	117,912	156,294	135,836	(20,458)	-13.1%
Total Development Services	\$ 463,479	\$ 540,647	\$ 551,598	\$ 315,293	\$ 381,294	\$ 493,135	\$ 111,841	29.3%

In addition, our development services program is realizing expenditure savings. The Community and Economic Development Department's operating expenditures are \$206,989 or 23.9% below the estimated budget. This is further reflected by a recovery ratio of 100%.

While we had been experiencing a slowdown in development activity (and the revenue that comes with it), the upside is there are over 45 development projects that are on the horizon for Mountlake Terrace. The anticipated level of activity even in an economic downturn as severe as this one indicates: 1) the importance of code updates that the City Council has made during the last few years; and 2) the strong interest in the community, including the Town Center/Downtown, the centerpiece of the city's economic development strategy where private investment and nearby public facilities will bring new relevance and vitality to the community.

Utility Tax

The following graph and table summarize utility tax revenue collections through third quarter between 2006 and 2010. Through third quarter 2010, utility tax collections totaled \$1,992,113, which is \$201,502, or 9.2% below the budget estimate (\$2,193,615).



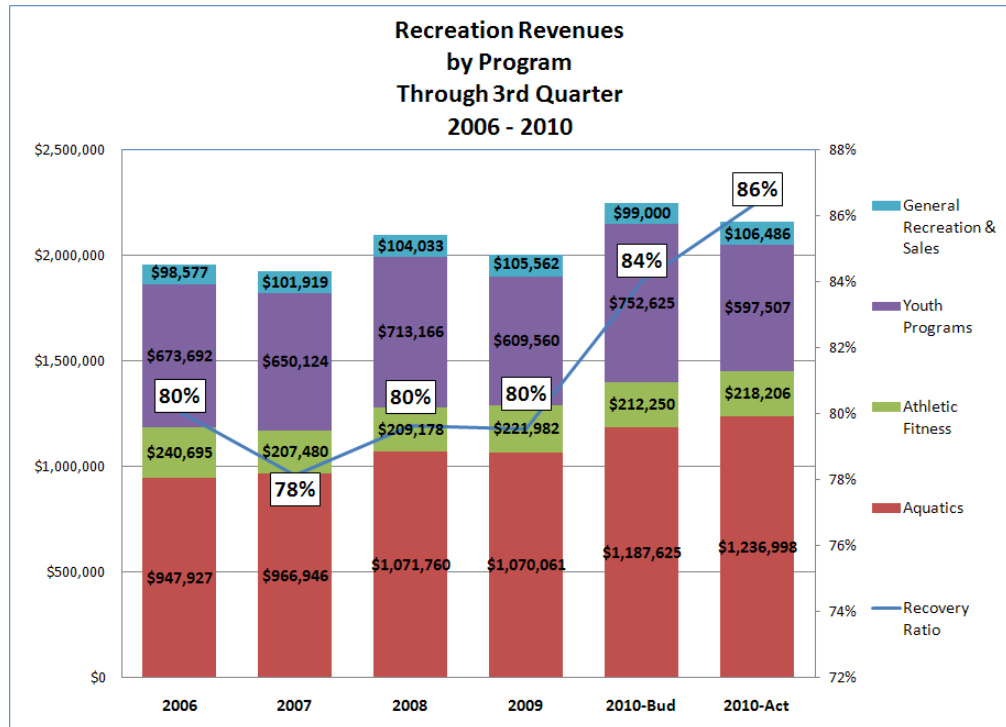
Compared to 2009 third quarter activity (\$2,097,789), utility tax collections have decreased \$105,676 or 5.0%, due primarily to a slow-down in telephone utility tax collections as well as a milder winter (January-March) that has resulted in lower gas and electric utility taxes as compared to previous years.

Utility Tax Source	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
Gas	\$ 167,170	\$ 213,600	\$ 206,134	\$ 227,211	\$ 231,030	\$ 169,147	\$ (61,883)	-26.8%
Solid Waste	159,922	167,663	157,313	178,936	187,200	171,136	(16,064)	-8.6%
Telephone	574,481	588,500	583,436	550,083	576,000	513,010	(62,990)	-10.9%
Electricity	486,759	502,382	510,728	509,823	522,616	498,909	(23,707)	-4.5%
Cable	273,231	147,509	154,427	145,432	153,514	145,169	(8,345)	-5.4%
City Utilities	403,013	430,018	465,557	486,304	523,255	494,742	(28,513)	-5.4%
Total Utility Tax Revenues	\$ 2,064,576	\$ 2,049,672	\$ 2,077,595	\$ 2,097,789	\$ 2,193,615	\$ 1,992,113	\$ (201,502)	-9.2%

Recreation Program

The following graph and table summarize recreation activity for third quarter between 2006 and 2010.

Through third quarter 2010, recreation fee collections totaled \$2,159,197, which is \$92,303, or 4.1% below the budget estimate (\$2,251,500).



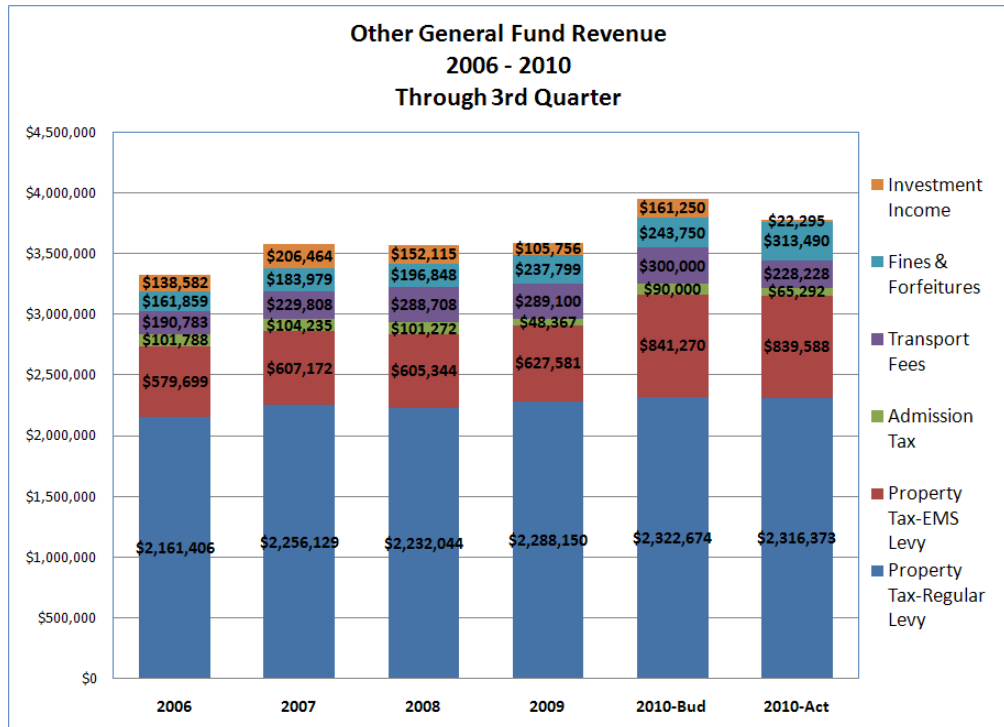
Compared to third quarter 2009 activity (\$2,007,165), recreation fee collections have increased by \$152,032, or 7.6%. This increase is most likely attributable to the recent closure of other facilities in the area coupled with clients taking advantage of our Recreation Pavilion, a locally and nationally recognized community amenity.

In addition, recreation program costs (\$2,498,695) are under the budget estimate (\$2,679,873) by \$181,178 or 6.8%, reflecting the financial prudence being practiced by the Recreation Department. The result of this is that the recreation program's cost recovery ratio is 96% considerably larger than previous years.

Recreation Program Source & Uses	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
<i>Recreation Fees</i>								
Aquatics	\$ 947,927	\$ 966,946	\$ 1,071,760	\$ 1,070,061	\$ 1,187,625	\$ 1,236,998	\$ 49,373	4.2%
Athletic Fitness	240,695	207,480	209,178	221,982	212,250	218,206	5,956	2.8%
Youth Programs	673,692	650,124	713,166	609,560	752,625	597,507	(155,118)	-20.6%
General Recreation & Sales	98,577	101,919	104,033	105,562	99,000	106,486	7,486	7.6%
Program Fees	\$ 1,960,891	\$ 1,926,469	\$ 2,098,137	\$ 2,007,165	\$ 2,251,500	\$ 2,159,197	\$ (92,303)	-4.1%
<i>Recreation Program</i>								
Aquatics	\$ 1,175,187	\$ 1,216,030	\$ 1,266,581	\$ 1,135,580	\$ 1,210,951	\$ 1,182,331	\$ (28,620)	-2.4%
Athletic Fitness	253,431	240,369	285,302	232,231	274,262	214,667	(59,595)	-21.7%
Youth Programs	852,263	850,489	925,489	999,697	1,040,915	946,805	(94,110)	-9.0%
General Recreation	29,030	19,908	18,249	17,692	14,995	16,142	1,147	7.7%
Debt Service	138,750	138,750	138,750	138,750	138,750	138,750	-	0.0%
Program Costs	\$ 2,448,661	\$ 2,465,546	\$ 2,634,371	\$ 2,523,950	\$ 2,679,873	\$ 2,498,695	\$ (181,178)	-6.8%
General Fund Subsidy	\$ (487,770)	\$ (539,077)	\$ (536,234)	\$ (516,785)	\$ (428,373)	\$ (339,498)	\$ 88,875	-20.7%
Cost Recovery Ratio	80%	78%	80%	80%	84%	86%	2.4%	2.9%

Other General Fund Revenue

- Property tax revenues were slightly below budget, coming in at 99.7% of the estimated budget. Property taxes in 2010 have increased \$240,230 as compared to 2009 reflecting the levy approved by voters in



November 2009 in support of EMS services.

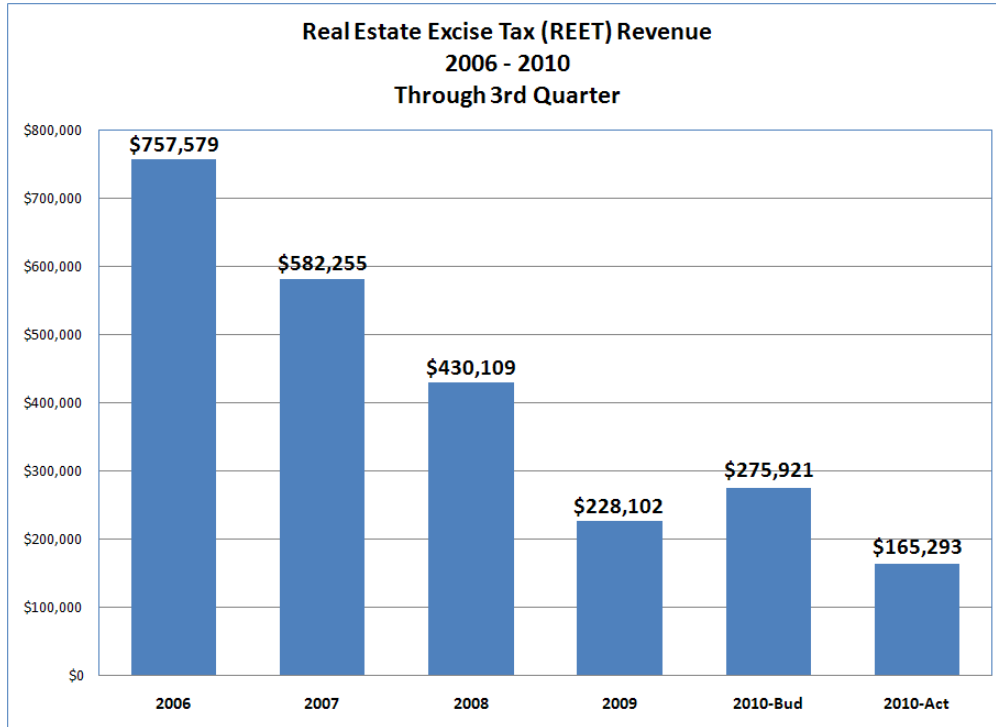
- Admission taxes total \$65,292 through third quarter 2010, which is \$24,708 or 27.5% below the adopted budget (\$90,000) and represents activity at Cinebarrre, which replaced the Regal Mountlake 9 Theatre in mid-2009. Reports continue to reveal that their unique and different approach to taking in a movie has been very successful and they are enjoying much better success than the former Mountlake 9, which we anticipate will generate both admission taxes and sales tax from the food service. This is reflected in the fact that admissions taxes have increased \$16,925 or 35.0% from collections through third quarter 2009 (\$48,367).
- Transport fees, which represent financial reimbursement from Medicaid, Medicare, and private insurance policies for the cost of providing medically necessary ambulance transportation is below budgetary estimates (\$300,000) by \$71,772 or 23.9%.
- Fines and forfeitures revenues collections (\$313,490), which are comprised primarily of traffic infractions and criminal citations, are above budgetary estimates (\$243,750) by \$69,740 or 28.6%. Compared to collections through third quarter 2009 (\$237,799), collections have increased \$75,691 or 31.8% reflecting a more proactive police presence in the community. This revenue source helps pay for municipal court service costs.
- General Fund investment interest revenues total \$22,295, which is \$138,955 or 86.2% below the budget estimate (\$161,250). While we do expect to fall short of our projected investment interest projections, most of our investment earnings are received during 4th quarter. It is the policy of the City of Mountlake Terrace that funds will be invested in only those investments permitted by Federal and State law as it relates to public funds. The primary objectives for the City's investment activities are (listed in the order of priority): safety, liquidity and yield.

Capital Improvement Funds

The City's Capital Improvement Funds, which include street and sidewalk construction, facilities, parks improvements, information technology investments, and traffic control investments, are accounted for in the following funds: Real Estate Excise Tax (REET); Street Construction; and Capital Improvement.

Sources & Uses					2010			Change (bud vs. act)	
	2006	2007	2008	2009	Budget			\$	%
					Annual	3rd Qtr	Actual		
Capital Improvement Funds									
Beginning Fund Balances	\$ 3,575,170	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 4,657,418	\$ 4,657,418	\$ 4,657,418	\$ -	0.0%
Operating Revenues									
Real Estate Excise Tax	966,611	693,101	486,364	292,652	350,000	275,921	165,293	(110,628)	-40.1%
Motor Vehicle Fuel Tax	150,104	156,166	149,373	143,861	149,672	112,254	106,998	(5,256)	-4.7%
Cable PEG Fees	16,796	16,988	16,916	21,485	17,000	12,750	12,876	126	1.0%
Transportation Impact Fees	-	-	2,334	1,081	266,400	17,059	17,059	-	n/a
Park Impact Fees	-	-	4,224	2,026	170,000	50,656	50,656	-	n/a
Investment Interest/Other	165,996	282,880	257,504	150,613	120,500	90,375	74,883	(15,492)	-17.1%
Subtotal Operating Revenue	1,299,507	1,149,135	916,715	611,718	1,073,572	559,015	427,765	(131,250)	-23.5%
Other Financing Sources									
Transfer In: General Fund	741,756	2,126,000	356,000	500,000	655,000	491,250	491,250	-	0.0%
Transfer In: Street Operating Fund	419,407	-	-	-	-	-	-	-	n/a
Transfer In: REET Fund	155,000	1,775,589	228,000	260,865	95,154	71,366	-	(71,366)	-100.0%
Transfer In: Strategic Reserve Fund	-	-	-	300,000	10,000	7,500	7,500	-	0.0%
Transfer In: Accum Leave Reserve Fund	-	500,000	-	-	-	-	-	-	n/a
Transfer In: Facilities Construction Fund	11,722	299,708	-	-	-	-	-	-	n/a
BAN Financing	-	-	-	380,000	578,645	-	-	-	n/a
Grants	398,257	172,558	118,853	848,442	1,606,995	1,031,700	1,031,700	-	n/a
Subtotal Other Financing Sources	1,726,142	4,873,855	702,853	2,289,307	2,945,794	1,601,816	1,530,450	(71,366)	-4.5%
Total Capital Improvement Funds	\$ 6,600,819	\$10,620,305	\$ 8,361,147	\$ 8,524,161	\$ 8,676,784	\$ 6,818,249	\$ 6,615,632	(202,617)	-3.0%
Capital Program									
Overlay Program	\$ 881,419	\$ 483,158	\$ 474,248	\$ 999,768	\$ 873,492	\$ 41,337	\$ 41,337	-	0.0%
Chip & Slurry Seal Program	211,091	155,610	236,245	191,901	293,200	305,832	305,832	-	0.0%
ADA Sidewalk Program	-	-	-	36,773	132,198	-	-	-	n/a
Traffic Calming Program	1,695	5,995	15,152	-	47,848	-	-	-	n/a
Bicycle Route Program	-	-	-	-	20,000	197	197	-	n/a
Sidewalk Program	48,175	294,480	55,067	55,611	973,272	154,722	154,722	-	0.0%
Transportation Plan	-	75,057	-	-	-	-	-	-	n/a
Traffic & Signal Control Program	182,470	-	26,072	140,367	786,940	116,591	116,591	-	0.0%
Interurban Trail Link	39	4,681	150,256	5,800	21,444	-	-	-	n/a
Street Reconstruction	8,145	13,659	16,960	210,784	2,763,911	1,204,240	1,204,240	-	0.0%
Engineering Services	87,000	184,455	238,244	341,589	185,945	249,937	249,937	-	0.0%
Capital-Artwork	-	-	7,500	17,500	-	-	-	-	n/a
Capital-Information Technology	65,856	144,111	166,196	174,445	158,517	69,930	69,930	-	0.0%
Capital-Community & Economic Develop	-	-	123,940	-	1,000	-	-	-	n/a
Capital-Property Management	54,870	150,881	481,385	225,504	65,341	28,448	28,448	-	0.0%
Capital-Interim City Hall	-	-	-	399,982	578,645	430,666	430,666	-	0.0%
Capital-Parks	-	114,128	280,419	61,757	143,818	8,722	8,722	-	0.0%
Capital-Recreation	29,182	13,719	24,870	21,818	22,200	1,932	1,932	-	0.0%
Capital-Police	81,226	-	71,206	60,666	84,824	92,565	92,565	-	0.0%
Capital-Future Investments	-	320,953	-	-	-	-	-	-	n/a
Subtotal Other Financing Uses	1,651,168	1,960,887	2,367,760	2,944,265	7,152,595	2,705,119	2,705,119	-	0.0%
Transfer Out (Debt Service & CIP)	352,336	1,917,839	370,250	922,478	352,000	264,000	176,342	(87,658)	-33.2%
Total Capital Improvement Funds	\$ 2,003,504	\$ 3,878,726	\$ 2,738,010	\$ 3,866,743	\$ 7,504,595	\$ 2,969,119	\$ 2,881,461	(87,658)	-3.0%
Fund Balances									
Designated/Reserved:									
P.E.G. (Cable Fees)	\$ 32,309	\$ 37,476	\$ 47,886	\$ 63,926	\$ 70,926	\$ 76,676	\$ 76,802	126	0.2%
Transportation Impact Fees	-	-	2,334	2,334	269,815	20,474	20,474	-	0.0%
Park Impact Fees	56,213	56,213	10,110	6,250	340,000	56,906	56,906	-	0.0%
Capital Improvements	4,508,793	6,647,890	5,562,807	4,584,908	491,448	3,695,074	3,579,989	(115,085)	-3.1%
Total Ending Fund Balances	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 4,657,418	\$ 1,172,189	\$ 3,849,130	\$ 3,734,171	\$ (114,959)	-3.0%

Real Estate Excise Taxes



The following graph and table illustrate collection history for the first and second 1/4 percent real estate excise taxes (REET). The table and graph both reflect the cyclical variation in this revenue source. Through third quarter 2010, REET revenues (\$165,293) were under budgetary estimates

(\$275,921) by \$110,628 or 40.1%. Compared with third quarter 2009 activity (\$228,102), REET revenues have decreased \$62,809 or 27.5%. This decline is reflective of the slowing real estate market.

Real Estate Excise Tax Month	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
January	\$ 40,033	\$ 47,661	\$ 40,985	\$ 45,587	\$ 24,929	\$ 11,186	\$ (13,743)	-55.1%
February	35,329	34,742	34,647	11,905	17,995	6,579	(11,416)	-63.4%
March	65,065	61,674	34,183	15,461	24,214	21,687	(2,527)	-10.4%
April	64,087	66,041	38,536	16,750	25,292	20,069	(5,223)	-20.7%
May	67,692	88,856	128,309	16,282	40,739	22,519	(18,220)	-44.7%
June	213,025	112,523	43,814	21,106	39,454	15,572	(23,882)	-60.5%
July	135,618	72,816	33,147	47,594	43,480	26,048	(17,432)	-40.1%
August	63,927	56,712	28,679	29,321	29,820	22,654	(7,166)	-24.0%
September	72,803	41,230	47,809	24,096	29,998	18,979	(11,019)	-36.7%
October	110,243	39,594	28,369	21,299	28,853			
November	51,404	43,308	12,471	28,732	24,479			
December	47,385	27,944	15,415	14,519	20,747			
Total REET	\$ 966,611	\$ 693,101	\$ 486,364	\$ 292,652	\$ 350,000	\$ 165,293	\$ (110,628)	-40.1%

Our REET revenue estimate for 2010 totals \$350,000 and is allocated specifically for capital projects. The good news is that even though we did not meet this revenue objective, our 2010 CIP program will not suffer because of ARRA funds and other grant revenue we expect to receive that was not anticipated when the budget was prepared in late 2008.

The one bit of continued silver lining in this economic downturn is that the bidding climate for public construction projects is very favorable. Construction costs have dropped significantly, primarily because of plunging fuel costs, cheaper materials, and more competitive bidding. It's the only real upside to the economic forces that currently are stressing our finances.

In addition, the City has been successful in obtaining the following federal and state funds that we have or are expected to receive in the coming year -- totals approximately \$5.0 million dedicated for much needed capital investments:

52nd/53rd Avenues Water Main Construction Project

- \$500,000 - FY 2008 federal appropriations for phase 1 of downtown water main project
- \$500,000 - FY 2009 federal appropriations for phase 2 of downtown water main project

52nd Avenue W Reconstruction Project (212th to 220th) Project

- \$1,000,000 - American Recovery and Reinvestment Act of 2009 (federal stimulus package)

230th Street SW Reconstruction Project

- \$961,350 - American Recovery and Reinvestment Act of 2009 (federal stimulus package)
- \$245,995 - State Transportation Improvement Board funds (sidewalks)

222nd Street SE between 58th and 60th Avenue W Sidewalk Connection Project

- \$195,254 - CDBG funds in support of sidewalk project adjacent to Jack Long Park (222nd Street SW between 58th and 60th Avenue W)

222nd Street SW between 39th and 44th Avenue W Sidewalk Connection Project

- \$200,000 - CDBG funds for sidewalks along 222nd St SW between 39th and 44th connecting to Cedar Way Elementary School and Bicentennial Park

Stormwater Program

- \$50,000 (2008) - Phase II Stormwater Pass-Through Grant Program in support of NPDES II training, community education, and replacement of street sweeper
- \$75,000 (2009) - Phase II Stormwater Pass-Through Grant Program in support of NPDES II training and community education
- \$125,930 (2010) - Phase II Stormwater Pass-Through Grant Program in support of NPDES II, anticipated uses in our community include public education efforts using a multimedia approach, expansion of an existing water quality monitoring program on Lake Ballinger to include Hall Creek and planning, design and construction of a city sponsored storm retrofit and Low Impact Development project
- \$200,000 (2009) - State appropriation in support of Lake Ballinger/McAleeer Creek Watershed to develop Strategic Action Plan (SAP) in partnership with cities of Edmonds, Lake Forest Park, Lynnwood, Shoreline and Snohomish County

Town Center

- \$135,000 - Energy Efficiency and Conservation Block Grant (EECBG)
- \$75,000 - Energy Efficiency through Transportation Planning Grant
- \$100,000 – Transfer of Development Rights (TDR) Alliance through State Department of Commerce

Lakeview Trail

- \$200,000 - FY 2010 federal appropriations connecting Mountlake Terrace Transit Center at I-5/236th St West to Interurban Trail along Lakeview Drive

212th Street SW Overlay Project (from 44th to 52nd Avenues W)

- \$285,590 - Surface Transportation Program (STP) funding in partnership with City of Lynnwood (\$571,180)

Electric Vehicle Charging Stations

- \$52,000 - Department of Energy and Coulomb Technologies Grant -- This project will furnish ten electric vehicle charging stations to the City for installation at the Mountlake Terrace Transit Center

The City will continue to take a proactive approach in securing future local, state and federal grants as is evident by the following grant and appropriation requests that currently are pending:

Grant	Project	Amount Requested
Safe Routes to School	54 th Ave W, 220 th to 223 rd Sidewalks	\$330,000
Sustainable Communities	Regional Planning Project (PSRC application)	Up to \$5,000,000
Community Challenge Planning Grant	Comprehensive Plan	\$120,000
State TIB	Street/Sidewalk project(s) – TBD	TBD
Transportation Enhancements Program	Lakeview Trail	\$1,900,000
PSRC/CMAQ	Lakeview Trail	\$300,000

Project	Status	Amount Requested
Storm Water Detention & Water Quality Improvements in support of Civic Campus and Lake Ballinger/McAler Creek Watershed Basin	Not on track to receive funding this year.	\$500,000
Safe Routes to School Sidewalk Projects	Senator Murray and Senator Cantwell requested funding, but not included as part of Senate Appropriations Bill	\$750,000
Emergency Response Interoperability	Representative Inslee has requested \$300,000 and is included in House Appropriations Subcommittee	\$500,000
Lakeview Trail	Included in Congressional Reauthorization of the Transportation Bill	\$1,000,000
Lake Ballinger/McAler Creek Watershed Partnership	Representative Inslee has requested \$1.2 million as part of the WRDA	\$1,200,000

Key Capital & Construction Investment Projects

The City continues to implement its \$66 million capital improvement plan for the years 2006 through 2014 that includes important improvements to our streets, parks, sidewalks, facilities, utilities and open space areas. The following are some of the City’s key projects for 2010.

Projects recently completed...

1. Chip Seal Program: Residential streets totaling 4.2 miles were chip sealed in this year’s pavement preservation program. The streets chip sealed are those within the area bounded by 219th St SW on the West, 220th on the South, 48th Avenue on the East and 56th and 212th on the North. The area of 236th Avenue between 54th and Cedar Way, a key east-west route was also included. Construction is complete.
2. 230th Street SW Reconstruction Project: The reconstruction of this roadway includes two travel lanes, two 5’ wide bike lanes, 5’ wide sidewalks on both sides, and an intermittent 8’ wide parking lane along the street. The improvements include sidewalk ramps, drainage improvements, a revised vertical street profile (between 61st Avenue and the I-5 bridge) to improve sight distance, pavement markings, and street trees. Lastly, a water main was replaced under the roadway in accordance with the city’s comprehensive water system plan.

3. 222nd Street Sidewalk Connection at Jack Long Park: The project, which began earlier this summer provides curbs and sidewalks along the north side of 222nd Street SW and will complete a missing link in the sidewalk network connecting 58th and 60th Avenues W. Sidewalk ramps and drainage improvements have been constructed at the intersection of 222nd and 60th. Where the new sidewalk passes the frontage of Jack Long Park, a stairway has been constructed up a steep grassy slope to the park's south entrance. A Community Development Block Grant (CDBG) is funding about 80% of the construction contract cost.

Projects underway...

4. 214th & 44th Traffic Signal: The new signal will enhance safety and increase capacity of 44th Avenue West and 214th Street SW. The project includes interconnecting the new signal with the existing signals at 212th Street SW and 217th Street SW so all three will operate in coordination. Other improvements at the intersection include new sidewalk ramps, uniform street lighting, and consolidation of the two driveways into a single driveway on the west approach to the signal. Construction is scheduled to begin in early fall.
5. East Side Water System Water Improvements: A new 12" diameter main will be installed in 228th Street SW between 39th and 44th, in Cedar Way from 228th to entrance to the 23400 block, and in 222nd Street between 39th and 44th to increase the available fire flow in the area. Construction beginning in late 2010/early 2011. A street overlay will follow in 2011 or 2012.
6. Town Center Water System Improvements: A new 12" diameter main will be installed in 55th Avenue W from 230th to the 23700 block, and in 230th and 234th Streets SW from 55th to 56th. A new 8" diameter main will be installed in 230th Street SW from 53rd to 56th. This project is funded up to 55% with a US Environmental Protection Agency (EPA) grant. Considering the current favorable bidding climate, contract will include additional water system improvements so that all of the EPA grant can be used. This additional work will be optional depending on the bids. The optional improvements are a new 16" diameter main in 234th from 56th to 58th, and a new 12" main in 56th from 228th to 230th. Construction is anticipated to begin in late 2010/early 2011.
7. Storm and Sanitary Reconstruction Projects: This project is a combination of smaller storm and sanitary improvements at numerous locations throughout the City. Nearly all of the improvements are undertaken to replace sewer and storm systems that are failing and require high levels of maintenance, or to make minor modifications to improve access to portions of these systems which are difficult to properly maintain. Construction is scheduled to begin in late 2010/early 2011.
8. Hall Creek Culvert Removal and Sewer Replacement Project: Herrera Environmental Consultants, who were selected earlier this year, have begun to conduct the Engineering, Design and Permitting of the Hall Creek Culvert Removal and Sewer Replacement Project. This complex project due to the permitting requirements and the varied components of the project is the combination of two adjacent projects, a culvert removal project and sewer main replacement project that will benefit the Water, Sewer and Storm Water Utilities. The primary objective of the culvert removal project is to help to alleviate flow constriction caused by the undersized culverts that during large storm events that results in localized flooding. Seeing that all flow from Hall Creek eventually reaches Lake Ballinger either over the top of the roadway on 230th or through the four culverts, there is no anticipated to change in the total volume of water reaching the lake for a given event. Secondary project objectives

include water quality enhancements, removal of a fish passage barrier, relocation of the eight inch water main, retaining the grade and alignment of the existing sewer under the creek, preserving pedestrian access across the creek with the installation of a pedestrian bridge, and accommodating a vehicle turnaround for 230th Street SW. The objective of the sewer project is to replace portions and rehabilitate portions of the existing sewer main where the line has settled and requires frequent maintenance. The project schedule is complete design and permitting by April 2011 with construction occurring in the summer of 2011.

9. Street Overlay Program: 212th between 44th and 52nd will be repaved as a joint project with the City of Lynnwood. The existing pavement is failing and needs to be repaired and overlaid. Drainage and sanitary sewer repairs are also necessary. Additional needed improvements include installing new sidewalk ramps, replacing broken curb and sidewalk, and installing new traffic control signs and pavement markings. Both cities budgeted for drainage and sanitary sewer repairs, pavement repair and overlay work this year so it could be accomplished as a single, joint jurisdiction project. An interlocal agreement was approved by each City Council earlier this year allocating and defining each city's respective role and responsibilities associated with this project. Construction was moved to next summer after we were notified that this project will receive Surface Transportation Program (STP) grant funding in the amount of \$571,180 that will be shared by both cities (\$285,590 for each city).

10. Town Center

- a) Energy Conservation Tool Kit for Town Center Development -- this project, funded by the Washington State Department of Commerce under the American Recovery Reinvestment Act, will be undertaken in partnership with the Urban Innovations Group (UIG), to develop a development review and inspection process, including an energy conservation "tool kit," that will result in more energy-efficient development in the Town Center. Ultimately, the tool kit is intended to be adaptable to other key areas within the City or in other communities.
- b) Energy-Efficient Transportation Choices Project -- this project, also funded by the Washington State Department of Commerce under the American Recovery Reinvestment Act, is to plan for Sound Transit light rail and transit-oriented development, including bicycle and pedestrian connections, especially in the vicinity of I-5 and 236th, in partnership with Sound Transit and Community Transit.

Utility Funds

The City operates three utilities: storm water, sewer, and water. Each utility is a stand-alone enterprise fund financed with user fees collected from the customers of each system (i.e., residential property owners, commercial property owners, etc.). These revenue sources are collected to finance both the ongoing maintenance and operations of each system, as well as construction projects in support of system rehabilitation and expansion.

- Storm Water: Storm Water operating revenues are under budgetary estimates by \$26,292 or 2.8% through third quarter 2010. Operating expenditures are exceeding budgetary estimates by \$23,210 or 2.7% due primarily to higher than anticipated maintenance costs.
- Water: Water operating revenues exceeded budgetary estimates by \$38,360 or 1.9% through third quarter 2010 while operating expenditures are below budgetary estimates by \$163,836 or 8.6% due primarily to lower than anticipated maintenance costs.
- Sewer: Sewer operating revenues are under budgetary estimates by \$36,370 or 1.6% through third quarter 2010, while operating expenditures are under budgetary estimates by \$139,233 or 6.9% due primarily to lower than anticipated maintenance costs.

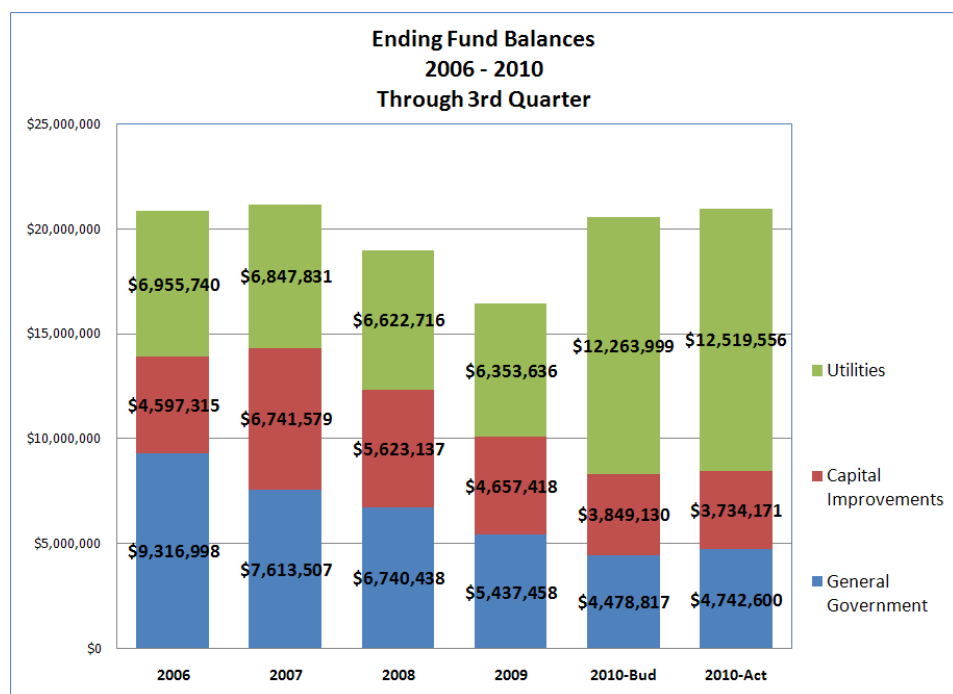
Sources & Uses					2010			Change (bud vs. act)	
	2006	2007	2008	2009	Budget			\$	%
Utility Funds					Annual	3rd Qtr	Actual		
Beginning Fund Balances	\$7,286,594	\$6,847,767	\$6,936,129	\$6,622,716	\$6,353,636	\$ 6,353,636	\$ 6,353,636	\$ -	0.0%
Operating Revenues									
Storm Water	917,421	931,680	1,018,450	1,142,696	1,334,173	933,921	907,629	(26,292)	-2.8%
Water	2,651,866	2,529,983	2,755,605	2,799,047	2,910,383	2,037,268	2,075,628	38,360	1.9%
Sewer	2,889,815	2,812,790	3,056,971	3,028,233	3,343,634	2,340,544	2,304,174	(36,370)	-1.6%
Subtotal Operating Revenues	6,459,102	6,274,453	6,831,026	6,969,976	7,588,190	5,311,733	5,287,431	(24,302)	-0.5%
Operating Expenditures									
Storm Water	847,183	906,074	909,589	1,049,582	1,226,479	858,535	881,745	23,210	2.7%
Water	2,327,798	2,309,016	2,273,928	2,446,738	2,726,667	1,908,667	1,744,831	(163,836)	-8.6%
Sewer	2,317,565	2,445,042	2,606,838	2,597,915	2,900,585	2,030,410	1,891,177	(139,233)	-6.9%
Debt Service	105,010	105,687	88,882	120,860	120,400	122,452	122,452	-	0.0%
Subtotal Operating Expenditures	5,597,556	5,765,819	5,879,237	6,215,095	6,974,131	4,920,064	4,640,205	(279,859)	-5.7%
Operating Surplus (Deficit)	861,546	508,634	951,789	754,881	614,059	391,669	647,226	255,557	65.2%
Other Financing Sources									
Grants and PWTF	-	291,200	162,622	476,152	477,000	-	-	-	n/a
Loan Proceeds	-	-	-	-	4,600,000	6,496,068	6,496,068	-	n/a
Transfer from Utility Funds	1,717,093	3,301,158	4,852,924	120,860	120,400	122,452	122,452	-	n/a
Subtotal Other Financing Uses	1,717,093	3,592,358	5,015,546	597,012	5,197,400	6,618,520	6,618,520	-	n/a
Other Financing Uses									
Construction Projects	1,300,197	904,846	1,516,706	1,620,973	6,333,731	1,099,826	1,099,826	-	0.0%
Transfer to Utility Funds	1,609,296	3,196,082	4,764,042	-	-	-	-	-	n/a
Subtotal Other Financing Uses	2,909,493	4,100,928	6,280,748	1,620,973	6,333,731	1,099,826	1,099,826	-	0.0%
Fund Balances									
Reserves (15% of Oper Exp)	-	-	913,941	964,409	1,028,060	1,045,937	1,045,937	-	0.0%
Designated/Reserved:									
Storm Water	1,704,626	1,514,300	1,098,414	1,052,415	941,069	3,500,121	3,450,619	(49,502)	-1.4%
Water	2,951,524	3,260,139	2,576,703	2,350,158	2,674,751	4,533,497	4,735,692	202,195	4.5%
Sewer	2,148,133	2,073,392	2,033,658	1,986,654	1,187,484	2,726,019	2,828,883	102,864	3.8%
Debt Service	151,457	-	-	-	-	458,425	458,425	-	0.0%
Total Ending Fund Balances	\$6,955,740	\$6,847,831	\$6,622,716	\$6,353,636	\$5,831,364	\$12,263,999	\$12,519,556	\$ 255,557	2.1%

Ending Fund Balances/Reserves

The following graph and table illustrates the City's ending fund balances between 2006 and third quarter 2010. The fund balances are segregated into three major components; reserved/designated (such as Strategic Reserve), contingency and unreserved/undesignated. In summary, we continue to maintain strong reserves consistent with our financial policies.

Ending Fund Balances All Funds	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Bud	Actual	\$	%
<i>General Government</i>								
Reserved/Designated								
Reserves (5% of GF Oper Exp)	\$ 694,768	\$ 672,383	\$ 729,525	\$ 682,127	\$ 733,043	\$ 733,043	\$ -	0.0%
Strategic Reserve (5% of GF Oper Exp)	916,507	959,753	995,309	720,800	726,283	726,283	-	0.0%
Reserved/Designated								
Encumbrances	402,437	179,672	185,553	532,789	768,726	783,349	14,623	1.9%
Equipment Replacement & Reserve	2,294,889	2,307,593	2,345,407	1,584,367	1,124,327	1,100,454	(23,873)	-2.1%
Hotel/Motel-Tourism	35,922	32,907	34,979	30,178	18,590	15,090	(3,500)	-18.8%
Solid Waste-Billing Exemptions	58,359	61,628	40,531	27,686	20,034	20,034	-	0.0%
Accumulated Leave Reserve	761,751	283,723	234,381	241,340	250,340	245,712	(4,628)	-1.8%
Subtotal Reserved/Designated	5,164,633	4,497,659	4,565,685	3,819,287	3,641,343	3,623,965	(17,378)	-0.5%
Contingency (2% of GF Oper Exp)	-	-	-	-	293,217	293,217	-	0.0%
Designated/Reserved (one-time)	4,152,365	3,115,848	2,174,753	1,618,171	544,257	825,418	281,161	51.7%
Total General Government	\$ 9,316,998	\$ 7,613,507	\$ 6,740,438	\$ 5,437,458	\$ 4,478,817	\$ 4,742,600	\$ 263,783	5.9%
<i>Capital Improvement</i>								
Reserved/Designated								
P.E.G. (Cable Fees)	32,309	37,476	47,886	63,926	76,676	76,802	126	0.2%
Transportation Impact Fees	-	-	2,334	2,334	20,474	20,474	-	0.0%
Park Impact Fees	56,213	56,213	10,110	6,250	56,906	56,906	-	0.0%
Capital Improvements	4,508,793	6,647,890	5,562,807	4,584,908	3,695,074	3,579,989	(115,085)	-3.1%
Total Capital Improvement	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 4,657,418	\$ 3,849,130	\$ 3,734,171	\$ (114,959)	-3.0%
<i>Utilities</i>								
Reserves (15% of Oper Exp)	-	-	913,941	964,409	1,045,937	1,045,937	-	0.0%
Designated/Reserved:								
Storm Water	1,704,626	1,514,300	1,098,414	1,052,415	3,500,121	3,450,619	(49,502)	-1.4%
Water	2,951,524	3,260,139	2,576,703	2,350,158	4,533,497	4,735,692	202,195	4.5%
Sewer	2,148,133	2,073,392	2,033,658	1,986,654	2,726,019	2,828,883	102,864	3.8%
Debt Service	151,457	-	-	-	458,425	458,425	-	n/a
Total Utilities	\$ 6,955,740	\$ 6,847,831	\$ 6,622,716	\$ 6,353,636	\$12,263,999	\$12,519,556	\$ 255,557	2.1%
Total Ending Fund Balances	\$20,870,053	\$21,202,917	\$18,986,291	\$16,448,512	\$20,591,946	\$20,996,327	\$ 404,381	2.0%

Reserves are an important indicator of the City's fiscal health. They effectively represent "savings accounts" that are established to meet unforeseen budgetary needs. The City's reserves are strong with financial resources set aside to accommodate unexpected operational changes, legislative impacts, or other economic events affecting the



City's operations. They also represent funds set aside for key public improvements and investments, particularly in streets, traffic, parks, and utilities. In total, ending fund balances are exceeding budget estimates through third quarter 2010.

Reserved/Designated Ending Fund Balances: The first component of ending fund balances, totaling \$3,623,965 at the end of third quarter 2010, are those moneys that have been earmarked for a strategic reserve fund (\$726,283), equipment replacement reserves (\$1,100,454), accumulated leave reserves (\$245,712), and General Fund reserves totaling 5% of operating expenditures (\$733,043). This reserve designation also include encumbrances from prior and current year (\$783,349), funds dedicated solely for tourism purposes (\$15,090), and solid waste billing exemptions (\$20,034).

The purpose of the strategic reserve is to provide some fiscal means for the City to respond to potential adversities such as public emergencies, natural disasters, or similar major, unanticipated events. Equipment replacement reserves are collected through charges to the City's General Fund and Utility Funds, permit the accumulation of cash for future replacement of the City's equipment and vehicles to smooth out further budgetary impacts.

Also included in reserved/designated ending fund balances are operating reserves for the three utility funds that total 15% of total operating expenditures (\$1,045,937) in the funds as well as utility funds reserved for construction projects (\$11,015,194) and debt service (\$458,425). All Capital (\$3,734,171) and Utility Construction Fund balances (\$11,015,194) are reserved for capital (e.g., street, transportation, parks, recreation, public safety, IT) and utility construction projects (e.g., water, sewer, stormwater) and cannot be used for operations.

Contingency Reserve Ending Fund Balances: The second component of ending fund balances are those funds reserved for unanticipated future expenditures. For 2010, budgeted contingency reserves totaled \$293,217; however these funds were not allocated. The contingency reserve represent 2% of General Fund operating expenditures and are reserved within the General Fund to accommodate unexpected operational changes, legislative impacts, or other economic events affecting the City's operations that could not have been reasonably anticipated at the time the budget was prepared. The City Council determines how the contingency reserve is spent.

Reserved/Designated Fund Balances (one-time general government): The reserved/designated fund balance is the balance of net financial resources that are available for appropriation. This portion of funding is not legally restricted and is available to the Council for one-time appropriation only and cannot be used for ongoing operations. Reserved/designated fund balances (\$825,418) in the General Fund through third quarter 2010 are over the budget estimate (\$544,257) by \$281,161 or 51.7%. These funds, which are set aside for future one-time capital investments and other one-time projects between 2011 and 2016, are consistent with the City's 6-year financial forecast. These funds are not available for ongoing programs and services funded as part of the six-year financial forecast.

Action Strategies and Preventative Measures Implemented

The 2009-2010 Biennial Budget adopted by Council in November 2008 was prepared and finalized before the full impact of the financial and credit market crisis was known. The adopted budget projected General Fund revenues to increase 1.7 percent in 2009 and 2.9 percent in 2010, meaning we have significantly tightened our budget to ensure we live within our means. Despite the budget's conservative assumptions for revenue growth in 2009 and 2010, the current economic crisis has caused us to make our new forecast, which was updated in October 2009 even more conservative.

As is evident from this financial report, we continue to experience even slower revenue collections than projected. This situation sheds light on a much larger issue in our budget: this is no longer a revenue problem or an expenditure problem; it is a core structural problem with the makeup of the community's revenue structure that needs to be addressed. However, until such time as the economy rebounds, which could take years, our only option is to continue providing general government services with the revenue that is available and to continue to focus on the expenditure side of the income statement.

The good news is that we began implementing steps in 2008 to mitigate the impact to ensure we meet our financial objectives and these steps will continue indefinitely. After prioritizing our services based on life/health/safety, legal mandates, and Council goals and priorities, the following action strategies and preventative approaches were implemented to mitigate the downturn in our revenue collections for 2009 through 2016 caused by the faltering economy.

- As part of the mid-biennial budget process in late 2009, revenue estimates beginning in 2010 have been adjusted downward to reflect current economic conditions.
- All discretionary spending has been eliminated, incurring costs related to basic services only (e.g., employee compensation; mandated training & certifications; basic services such as park maintenance, public safety, code enforcement, code compliance, ROW maintenance, & street sweeping; and community outreach and information such as newsletter, website, news releases).
- All other discretionary expenditures (i.e. supplies, travel, training, overtime, equipment, temporary help, COLAs for department directors, etc.) are on hold indefinitely.
- All other costs must be approved in advance after review by Finance Director and City Manager.
- All overtime hours must be reviewed and approved by the department director in advance.
- Fleet and equipment purchases are limited to essential vehicles and equipment. Non-essential purchases have been delayed.
- Non-essential information technology, recreation, and park improvements have also been delayed.
- All current and future positions that are vacated by attrition will not be filled with the exception of police patrol vacancies.

- A vacant maintenance position in our Street Division is being filled by employees from our Parks Services Division.
- The contract for City Attorney services has been reduced to 2002 level of service.
- The Community Specialist position funded from the General Fund has been reduced to half-time (remaining half-time hours will be charged to non-General Fund activities based on workload availability).
- The Civil Engineer II position assigned to review private development projects has been temporarily assigned to work part-time on capital and construction utility projects. This helps alleviate the project load on our engineering staff, while at the same time enabling us to charge one-half of this employee's time to utilities rather than the General Fund.
- Civic Center Utilities and Maintenance budget has been reduced reflecting utility and overhead savings because of the move to an interim City Hall in July 2009.
- The success of our Engineering Department in obtaining grants coupled with the favorable bidding climate for public works projects (e.g., TIB, ARRA) will enable us to reduce our General Fund and REET contributions to the Street Construction Fund in 2010 as we did in 2009.
- The reduction in gas prices will provide some financial relief in that the current cost per gallon is less than the \$3.56 anticipated in the adopted budget.
- A "Healthcare Task Force" of eight employees evaluated alternatives to reduce our ever-increasing employee healthcare costs. The City of Mountlake Terrace, like many employers is facing an urgent need to effectively contain the rise in employee health care costs, which average 10-15% annually. The Task Force not only looked at what our own costs are, but evaluated outside traditional approaches to employee benefits to find innovative ways to balance meeting employee health care needs and the need to control costs.

The result is that the majority of employees will move to AWC's "HealthFirst" insurance plan on January 1, 2011 in an effort to save money. Over 160 City employees are eligible for health insurance provided through the Association of Washington Cities (AWC). AWC has announced that the current health insurance plan will be ended in 2012 due to its high cost. (About 60 City employees who are represented by labor unions will make the decision to replace their current health insurance plan as part of the collective bargaining process.)

- Because of the continued deterioration of the economy and the projected ongoing loss of a key General Fund operating revenue source, an additional step includes the elimination of two regular, full-time Customer Service Specialist positions effective October 1, 2009. The duties of these positions have been assigned to employees in the Administrative Services Department who, according to an independent review last year, have capacity to pick up the additional tasks.
- The Administrative Services Department has been providing financial services to Southwest Snohomish County Communications Agency (SNOCOM). This contract for services, which began on November 1, 2009 and will continue through at least December 31, 2010, will generate General Fund income equal to approximately one-half of the salary and benefits for

a finance position during the term of the agreement. The Administrative Services Department is capable of assuming these tasks based upon the independent review conducted earlier this year that showed the department has the capacity to pick up the additional tasks.

- Lastly, the City previously streamlined the following services that has resulted in annual budgetary savings totaling \$1,550,000 dating back to 2005:
 - Contract for fire & EMS services (\$600,000 per year beginning in 2005)
 - Custodial services transitioned from in-house to contract (\$250,000 per year beginning in 2007)
 - Elimination of five management positions (\$400,000 per year beginning in 2006)
 - Fleet management best practices (\$300,000 per year beginning in 2009)

The service efficiencies and savings identified coupled with our current strategies and preventative measures have helped ensure that key municipal services (e.g., police, fire, parks, recreation, streets, and utilities) will not have to be reduced.

Other Options

In addition to the strategies and preventative measures implemented above, we also reviewed and considered the following options, but set them aside for the time being:

Use of financial reserves or contingency accounts to temporarily maintain services:

Although the City has funds set aside for unanticipated events, my recommendation is to hold off on using these financial reserves. The current economic climate has created a structural problem in our General Fund, meaning the use of reserves now does not address the ongoing and permanent loss of tax revenues.

A continued focus of program prioritization (e.g., economic development, capital infrastructure investment, communication and outreach with the community, and key essential public services such as public safety, parks, development services, recreation, streets, and utilities) and cost efficiencies (e.g., action strategies and preventative approaches as outlined above) is the most prudent way to ensure the city's financial health and continue to ensure that no services to our residents will need to be reduced. This approach has proven successful thus far – it is better to be proactive versus reactive, otherwise we prolong the inevitable.

Reduction or elimination of capital improvement projects (i.e., street overlays, sidewalks, street reconstruction projects, etc.):

The city's capital improvement and construction projects are funded primarily with revenue specific funding sources coupled with some one-time funds that are dedicated specifically for these types of projects and cannot be used for General Fund operating activities (i.e., public safety, parks, development services, finance, etc.).

Although a reduction in street construction projects could temporarily save some money in the General Fund, doing so creates a higher cost in the long term because our roads and other infrastructure deteriorate at a faster rate as they age. In other words, if we delay or cancel our construction projects, we will have more expensive projects in the future. At the same time, delaying these projects at this time fails to take advantage of a very favorable bid climate, where our costs for street projects are as much as 30 percent lower than anticipated. It will also eliminate our ability to leverage these resources with state and federal funds to continue to revitalize our basic infrastructure system (street overlays, sidewalks, street reconstruction projects, etc.).

Temporary Reductions in Development Services:

While we did experience a slowdown in development activity (and the revenue that comes with it), our development services program thus far is achieving its financial objectives. However, if this changes, temporary reductions may have to be implemented in this area as well since these program costs are funded primarily with development fees and the General Fund currently does not have the financial capacity to subsidize these costs.

Economic Development:

We will continue to focus on economic development, primarily in our commercial areas, including our downtown to generate additional property and sales taxes. However, given the current economic climate, it will take time for these projects to begin generating revenue to the City. Ultimately, the generation of new revenues from redevelopment and revitalization in our community, particularly our downtown will allow us to meet the growing demand for services.

Conclusion

Given the current economic volatility and as previously communicated since mid 2008, we will continue to evaluate revenues and expenditures on a regular basis and allocate resources in a manner that ensures first and foremost that no services to our residents will need to be reduced, eliminated or cut. This approach coupled with the action strategies and preventative approaches outlined above will allow us to meet our financial objectives for 2010 and deals with the structural problem created by the continued deterioration of the economy and its negative impact on our operating revenues. This approach will also allow us to continue to focus on the City Council and community's goals of ensuring the city's financial health and stability, economic development, capital infrastructure investment, communication and outreach with the community, and key essential public services such as public safety, parks, development services, recreation, streets, and utilities.

Attachments

- PowerPoint Presentation
- Attachment A -- Third Quarter 2010 Financial Report Detail
- Attachment B -- Municipal Court & Jail Services Expenditure Detail
- Attachment C -- Third Quarter 2010 Performance Measures