

MEMORANDUM

TO: City Council

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

DATE: April 29, 2009

SUBJECT: **QUARTERLY FINANCIAL REPORT**
January through December
December 31, 2008

Overview

This financial report is intended to provide an overview of financial activity that has taken place from January 1, 2008 through December 31, 2008. 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 December 2008. 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 2005. The report also reflects the 2008 budget amendments that were considered and adopted by the Council on May 5, 2008, and the additional 2008 budget amendments that were adopted on December 15, 2008.

In summary, 2008 was another successful year 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, financial projections are tracking consistent with the 2008 revised budget and the six-year financial forecast.

Annual Audit

Our 2008 audit is underway in partnership with the State Auditor's Office (SAO). We will again for 2008 be preparing a Comprehensive Annual Financial Report (CAFR), which goes beyond the financial reporting, required by both the SAO and those, required as part of generally accepted accounting principles (GAAP). The 2008 CAFR is expected to be completed by the end of June.

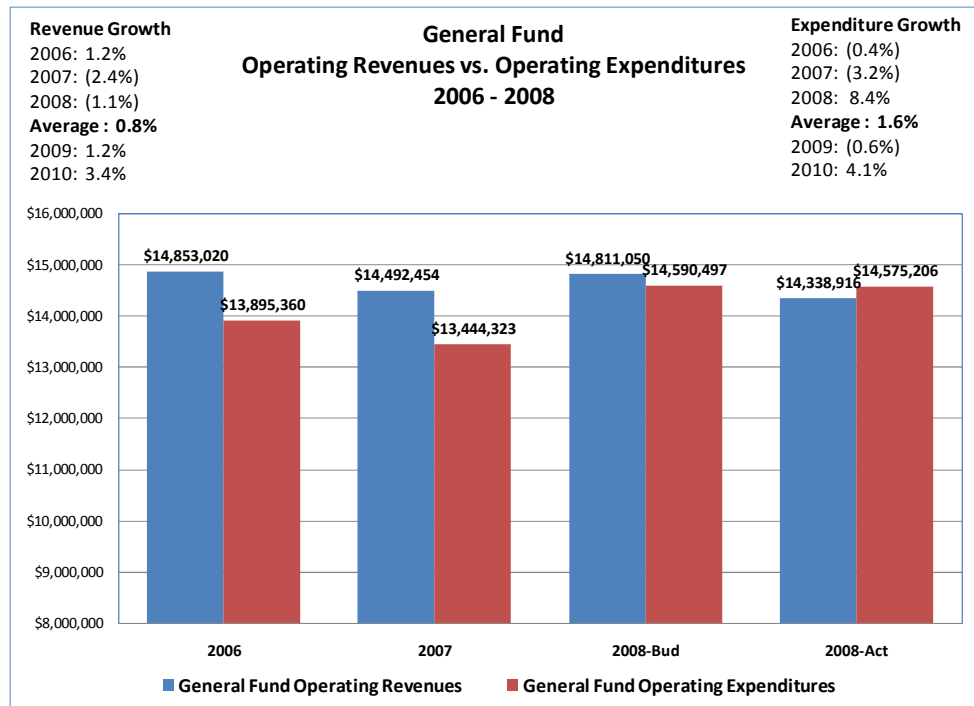
The result of this increased financial reporting is that the City has been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA) for our 2006 and 2007 comprehensive annual financial reports (CAFRs). 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.

The City of Mountlake Terrace is one of only 35 cities in Washington State to receive a Certificate. The City is also only one of 22 cities in the state to receive certificates for both the CAFR and the Distinguished Budget Award from GFOA. Only 4.9% of cities nationwide receive the award (only 1,747 cities nationwide out of 35,932 receive the award). This award along with our Distinguished Budget Award further illustrates the City's commitment to the highest financial integrity and reporting for its citizens.

Economic Conditions

Thus far, the City of Mountlake Terrace has weathered the financial downturn in spite of the continued uncertainty. The city has met its 2008 financial objectives as projected to carry forward into our 2009-2010 budget. In addition, the City's reserves are very strong with financial resources set aside to accommodate unexpected operational changes, legislative impacts, or other economic events affecting the City's operations.



We did meet our bottom line 2008 financial objectives, even though our General Fund revenues did fall short of budgetary projections by approximately 3.3% (e.g., very slow holiday sales, December snow events, and closure of Silver Dollar Casino). This shortfall is primarily a result of the current recession that began in December 2007 and is expected to last at least through 2009, perhaps longer. The result has been massive layoffs, growing level of unemployment, slumping home prices, a continued deterioration of consumer confidence, tight credit markets, and a slowdown in consumer spending.

However, this shortfall was more than offset with operating expenditure savings as well as some reductions in transfers to our CIP funds, which will not be needed due to the positive bid environment for our larger 2009 street, utility and transportation CIP projects.

In response to current economic conditions, we put in place in 2008 preventive measures to manage our finances to mitigate any downturn in our revenue collections for 2009 into 2010 and beyond due to the continuation of the faltering economy. We have eliminated all discretionary

spending, 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. In addition, non-essential vacant positions, with the exception of police patrol, will not be filled.

The one bit of silver lining in this economic downturn is that the bidding climate for public projects is very favorable. Construction costs have dropped significantly (e.g., recent water main project, ADA ramps project), primarily because of plunging energy costs and the global economic slowdown. It's the only real upside to the economic forces that currently are stressing our budget.

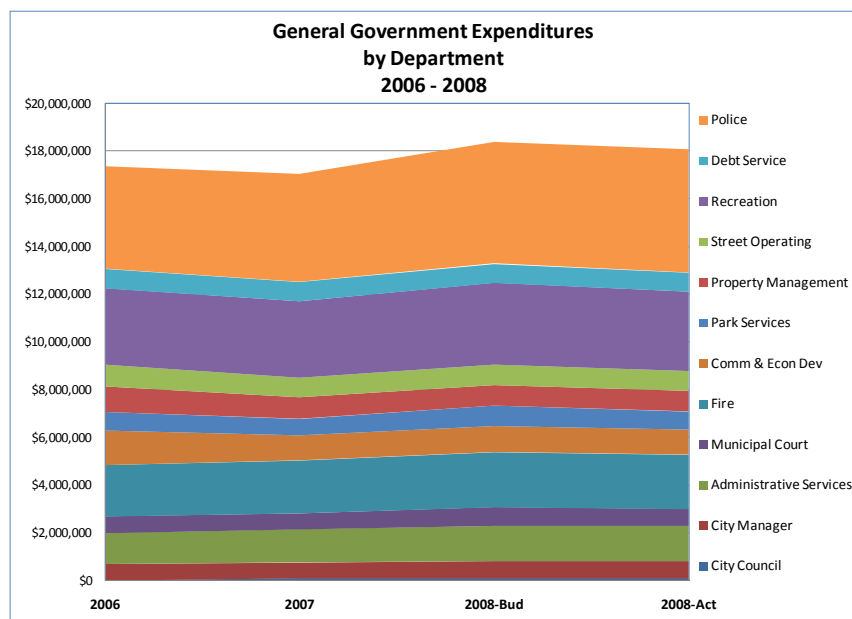
In summary, we have met our key financial objectives for 2008 and we continue with the preventative measures we put in for 2008 to ensure we meet our 2009 financial objectives. The city owes its strong financial standing to balanced and sustainable financial policies. For example, funds are set aside for the unexpected and thus far, we have not had to access any of our financial reserves.

Despite the current economic volatility, services for residents have been maintained at current levels and the City is moving forward on many strategic fronts. At this time, no services to our residents will need to be reduced, eliminated or cut.

We will continue to focus on the expenditure side of the income statement. These measures along with a combination of State and Federal funds (\$2.441 million) the City has been awarded, together with strong financial policies and finding efficiencies ensures that no services to our residents will need to be reduced or eliminated at this time.

General Government Funds

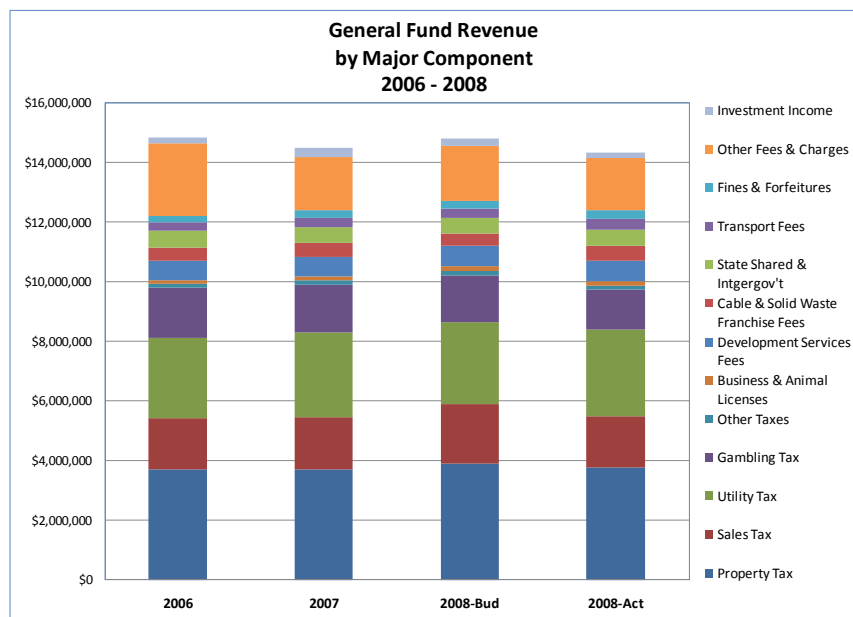
General Government Funds, which accounts for municipal services such as police, jail, court, fire, EMS, streets, parks, recreation, land use and zoning, planning, development services, debt service, and general administration such as finance, information services and community outreach and information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



Resources by Fund General Government	2006	2007	2008		Change (bud vs. act)	
			Budget	Actual	\$	%
Beginning Fund Balances	\$ 9,464,261	\$ 9,329,323	\$ 7,619,904	\$ 7,613,507	\$ (6,397)	-0.1%
General						
Property Tax	3,722,059	3,722,182	3,894,470	3,787,483	(106,987)	-2.7%
Sales Tax	1,704,801	1,756,581	2,009,620	1,712,184	(297,436)	-14.8%
Utility Tax	2,700,443	2,823,206	2,752,635	2,897,238	144,603	5.3%
Gambling Tax	1,681,265	1,609,601	1,560,000	1,338,964	(221,036)	-14.2%
Other Taxes	141,588	138,687	167,216	138,814	(28,402)	-17.0%
Business & Animal Licenses	127,184	139,758	136,455	151,698	15,243	11.2%
Development Services Fees	638,875	661,820	695,858	692,908	(2,950)	-0.4%
Cable & Solid Waste Franchise Fees	431,546	466,090	423,500	488,962	65,462	15.5%
State Shared & Intergov't	569,274	521,996	529,373	532,413	3,040	0.6%
Transport Fees	270,067	311,483	286,100	377,845	91,745	32.1%
Fines & Forfeitures	242,439	263,760	255,000	295,775	40,775	16.0%
Other Fees & Charges	2,411,950	1,769,874	1,862,699	1,734,268	(128,431)	-6.9%
Investment Income	211,529	307,416	238,124	190,364	(47,760)	-20.1%
Total General Fund Operating Revenues	14,853,020	14,492,454	14,811,050	14,338,916	(472,134)	-3.2%
Street Operating	367,879	379,475	378,264	358,187	(20,077)	-5.3%
Recreation	2,583,003	2,502,136	2,873,615	2,696,972	(176,643)	-6.1%
Debt Service	201,204	192,197	168,200	168,371	171	0.1%
Total General Govt Operating Revenues	18,005,106	17,566,262	18,231,129	17,562,446	(668,683)	-3.7%
Other Financing Sources						
Strategic Reserve	35,297	43,246	38,119	35,556	(2,563)	-6.7%
Fleet Management	769,249	775,957	952,519	825,413	(127,106)	-13.3%
Hotel/Motel Tax	26,775	21,985	23,030	27,072	4,042	17.6%
Solid Waste Service	17,500	17,500	17,500	-	(17,500)	-100.0%
Accumulated Leave Reserve	29,337	21,972	11,160	10,226	(934)	-8.4%
Other Fin Sources (all Gen Govt)	2,219,121	1,777,345	1,666,937	1,930,788	263,851	15.8%
Total Other Financing Sources	3,097,279	2,658,005	2,709,265	2,829,055	119,790	4.4%
Total All General Government Funds	\$30,566,646	\$29,553,590	\$28,560,298	\$28,005,008	\$ (555,290)	-1.9%

Revenues

Overall, General Fund operating revenues (\$14,338,916) collected in 2008 is slightly below the revised budget estimate (\$14,811,050) by \$472,134 or 3.2%. Compared with 2007 collections (\$14,492,454), operating revenues have decreased \$153,538 or 1.1%. Given the current economic crisis, these trends are relatively minor reflecting the inelastic nature of our revenue sources. While the City does have elastic revenues or



those that are more responsive to economic changes (e.g., sales tax, gambling tax), the City has primarily inelastic revenues. The benefit is that the City does not have an over-dependence on

elastic revenues, which can reduce revenues, thus negatively impacting the delivery of municipal services during economic downturns. However, the downside is that insufficient elastic revenues may produce revenue shortages during periods of high inflation or rapid economic growth. In addition, a reliance on inelastic revenues may not be sufficient long-term to maintain our existing level of municipal services.

Expenditures

General Fund operating expenditures (\$14,575,206) during 2008 are below the revised budget estimate (\$14,590,497) by \$15,291 or 0.1%. However, total general government expenditures (\$21,264,570) are below the revised budget estimate (\$22,027,774) by \$763,204 or 3.5%, which offset the lower than anticipated general government revenue collections. The savings are attributable to the preventative measures (e.g., elimination of all discretionary spending such as supplies, travel, training, overtime, equipment, temporary help, non-essential positions) put in place to manage our finances to mitigate the revenue downturn due to the faltering economy.

Expenditures by Fund General Government	2006	2007	2008		Change (bud vs. act)	
			Budget	Actual	\$	%
General						
City Council	incl with CM	\$ 96,659	\$ 105,886	\$ 104,753	(1,133)	-1.1%
City Manager	707,667	671,925	720,757	719,173	(1,584)	-0.2%
Administrative Services	1,269,046	1,374,134	1,457,748	1,460,074	2,326	0.2%
Municipal Court	708,455	673,956	791,602	710,570	(81,032)	-10.2%
Police	4,285,179	4,527,696	5,091,838	5,171,253	79,415	1.6%
Fire	2,156,172	2,224,941	2,314,221	2,289,888	(24,333)	-1.1%
Community & Economic Development	1,437,758	1,034,661	1,071,258	1,038,427	(32,831)	-3.1%
Park Services	772,235	688,783	863,152	752,220	(110,932)	-12.9%
Property Management	1,074,654	910,583	859,954	860,196	242	0.0%
Oper Transfer Out-Debt Svc	336,489	296,450	313,328	310,157	(3,171)	-1.0%
Oper Transfer Out-Streets	542,851	247,918	430,685	476,132	45,447	10.6%
Oper Transfer Out-Recreation	419,854	511,617	385,068	497,363	112,295	29.2%
Oper Transfer Out- Rec Debt Svc	185,000	185,000	185,000	185,000	-	0.0%
Total General Fund	13,895,360	13,444,323	14,590,497	14,575,206	(15,291)	-0.1%
Operating Surplus/(Deficit)	957,660	1,048,131	220,553	(236,290)	(456,843)	-207.1%
Street Operating	905,215	808,987	841,947	825,968	(15,979)	-1.9%
Recreation	3,208,442	3,202,052	3,444,225	3,333,259	(110,966)	-3.2%
Debt Service	823,478	822,448	808,778	805,778	(3,000)	-0.4%
Total General Government Funds	18,832,495	18,277,810	19,685,447	19,540,211	(145,236)	-0.7%
Other Financing Uses						
Fleet Management	628,542	763,253	895,601	823,547	(72,054)	-8.0%
Hotel/Motel Tax	19,302	25,000	55,144	25,000	(30,144)	-54.7%
Solid Waste Service	25,199	14,231	26,427	21,097	(5,330)	-20.2%
Accumulated Leave Reserve	-	500,000	60,000	59,568	(432)	-0.7%
Other Fin Uses (all Gen Govt)	1,744,110	2,359,789	1,305,155	795,147	(510,008)	-39.1%
Other Financing Uses	2,417,153	3,662,273	2,342,327	1,724,359	(617,968)	-26.4%
Total All General Government Funds	\$21,249,648	\$21,940,083	\$22,027,774	\$21,264,570	\$ (763,204)	-3.5%

All city departments expended within their allocated 2008 budgets, with the exception of Administrative Services (due primarily to annual state audit costs) and Police (due primarily to increased personnel costs). Operating transfers to the Street Operating Fund exceeded budgetary estimates, due primarily to the three major snow events that impacted our region in December; however some of those costs are eligible for reimbursement from FEMA, though they will not be received until sometime in 2009. Operating transfer to the Recreation Fund also exceeded

budgetary estimates, with a portion of the transfer attributable to ensuring positive cash balance in the Fund. This portion of the transfer (\$46,618) will be applied to the 2009 operating transfer.

On the other hand, the 2008 transfers to the Street Construction Fund and Capital Improvement Funds were reduced by \$350,000 reflecting the financial strength of those funds. These General Fund dollars are not needed given the unanticipated state and federal funds that will be received in 2009 coupled with the positive bidding environment experienced in both 2008 and early 2009.

Compared with 2007 expenditure activity (\$13,444,323), operating expenditures have increased \$1,130,883 or 8.4%. This can be attributed to the demand for increased services in areas such as public safety, code enforcement, parks and community outreach and information as well as inflationary pressures. In addition, the City incurred considerable costs responding to the three major snow events in December.

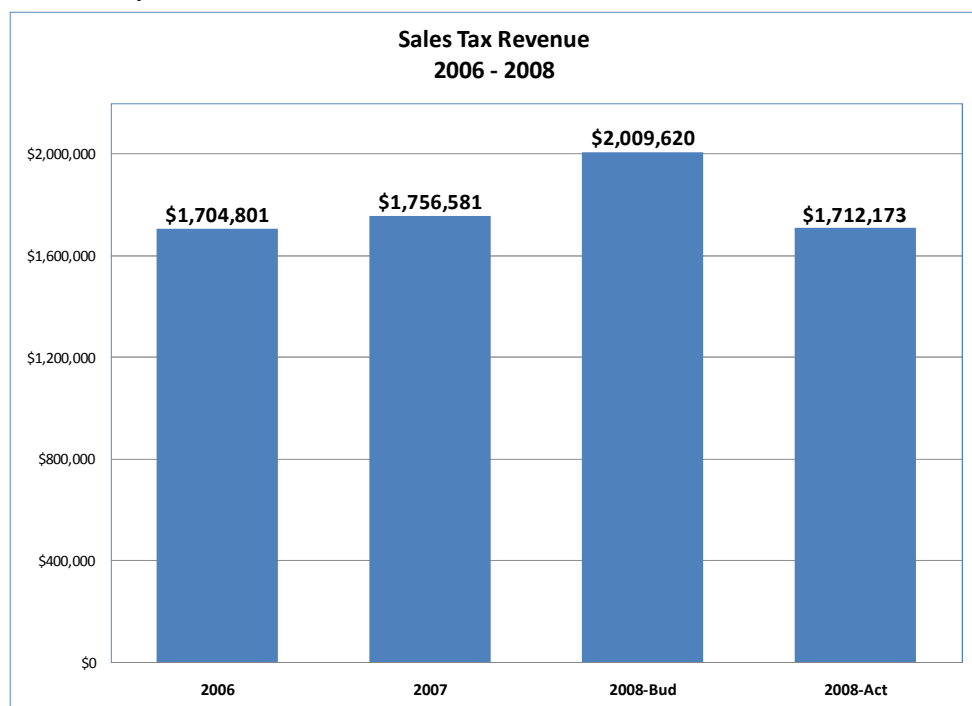
For comparison purposes, the 2009 adopted budget projects General Fund revenues to decrease 0.6% and increase 4.1% in 2010, meaning we have significantly tightened our budget to ensure we live within our means.

Since 2006, we have regularly evaluated how to provide services in a cost-efficient manner leading us to adjust operations by for example combining the duties of some jobs and eliminating five management positions. We also changed from in-house custodians to contracting for cleaning services as well as performing an audit of our fleet management program that has resulted in a more efficient use of these financial resources. These changes and many others have saved more than \$1.0 million annually without affecting basic services such as public safety, streets, park maintenance and utilities.

Local Retail Sales Tax

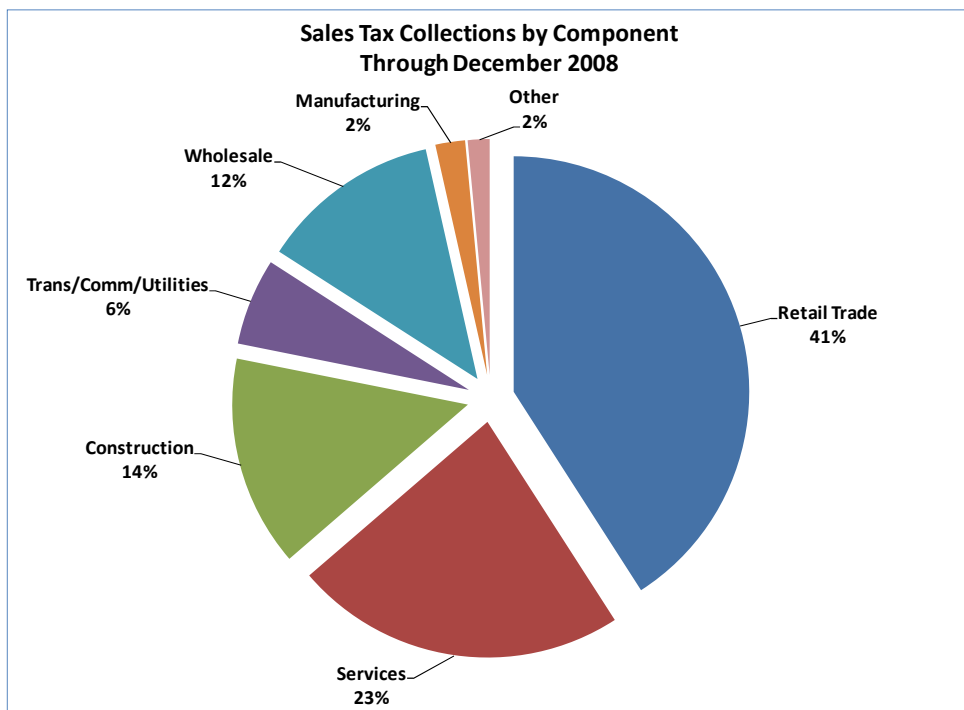
The following graph and table summarize local retail sales tax revenue. Sales tax collections lag two months. For November sales activities, the City accrues sales tax revenue in December, and the City receives cash in January.

Actual sales tax proceeds through December 2008 total \$1,712,173, which is \$297,447 or 14.8% below the 2008 budget estimate (\$2,009,620). This shortfall is a result of the current recession that began in December 2007 and is expected to last at least through mid-2009, perhaps longer. However,



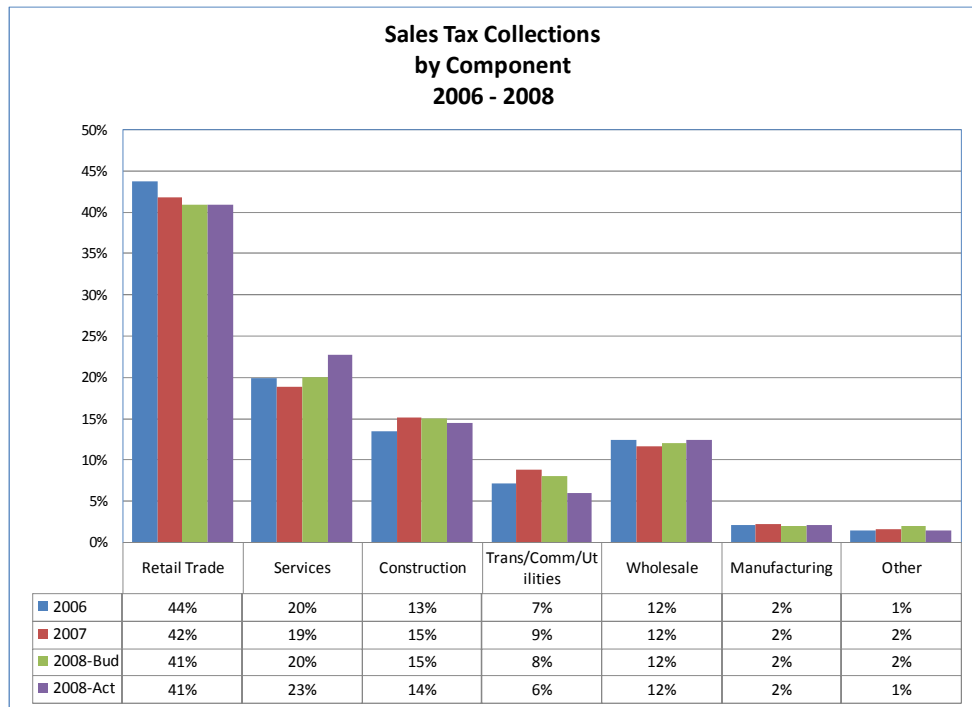
compared to activity in 2007 (\$1,756,581), sales tax revenues have only decreased \$44,397 or 2.5%.

Sales Tax Month	2006	2007	2008		Change (bud vs. act)	
			Budget	Actual	\$	%
January	\$ 137,110	\$ 156,986	\$ 134,645	\$ 106,774	\$ (27,871)	-20.7%
February	123,338	194,488	170,014	111,126	(58,888)	-34.6%
March	143,207	148,208	166,999	178,228	11,229	6.7%
April	131,338	130,211	152,731	133,987	(18,744)	-12.3%
May	138,482	123,979	155,545	123,005	(32,540)	-20.9%
June	151,226	161,593	179,861	153,441	(26,420)	-14.7%
July	138,361	126,952	162,176	139,119	(23,057)	-14.2%
August	140,179	133,653	173,028	132,166	(40,862)	-23.6%
September	155,523	163,049	181,670	155,999	(25,671)	-14.1%
October	129,513	134,858	159,966	137,937	(22,029)	-13.8%
November	128,789	125,128	157,554	134,084	(23,470)	-14.9%
December	187,735	157,476	215,431	206,307	(9,124)	-4.2%
Total	\$ 1,704,801	\$ 1,756,581	\$ 2,009,620	\$ 1,712,173	\$ (297,447)	-14.8%



Compared to 2007, Retail Trade activity decreased \$19,909 or 3.3%. However, Services activity increased \$52,806 or 19.7%, while both Construction and Transportation/Communications/Utilities decreased 5.2% and 33.1%, respectively, again reflecting the weak economic climate locally, regionally and nationally.

The next graph and table compare sales tax by industry sector between 2006 and 2008. Retail trade has generated the largest component of sales activity (41%) in 2008, followed by services (23%), construction (14%), and wholesale (12%). Transportation/communications/utilities, manufacturing, and other activities generate the remainder of sales tax receipts.



Sales Tax Component	2006	2007	2008		Change (bud vs. act)	
			Budget	Actual	\$	%
<i>Retail Sales Tax</i>						
Retail Trade	\$ 605,474	\$ 595,123	\$ 700,795	\$ 575,214	\$ (125,581)	-17.9%
Services	275,156	267,429	341,851	320,235	(21,616)	-6.3%
Construction	185,129	214,594	256,388	203,446	(52,942)	-20.6%
Transp/Comm/Utilities	97,981	125,150	136,740	83,766	(52,974)	-38.7%
Wholesale	171,875	164,528	205,111	174,311	(30,800)	-15.0%
Manufacturing	28,336	30,793	34,185	28,467	(5,718)	-16.7%
Public Services	1,389	901	-	123	123	n/a
Other	18,994	22,149	34,185	20,828	(13,357)	-39.1%
Total Retail Sales Tax	\$ 1,384,334	\$ 1,420,667	\$ 1,709,256	\$ 1,406,390	\$ (302,866)	-17.7%
<i>Criminal Justice Sales Tax</i>	320,467	335,914	300,364	305,783	5,419	1.8%
Total Sales Tax	\$ 1,704,801	\$ 1,756,581	\$ 2,009,620	\$ 1,712,173	\$ (297,447)	-14.8%

State-Shared Revenues

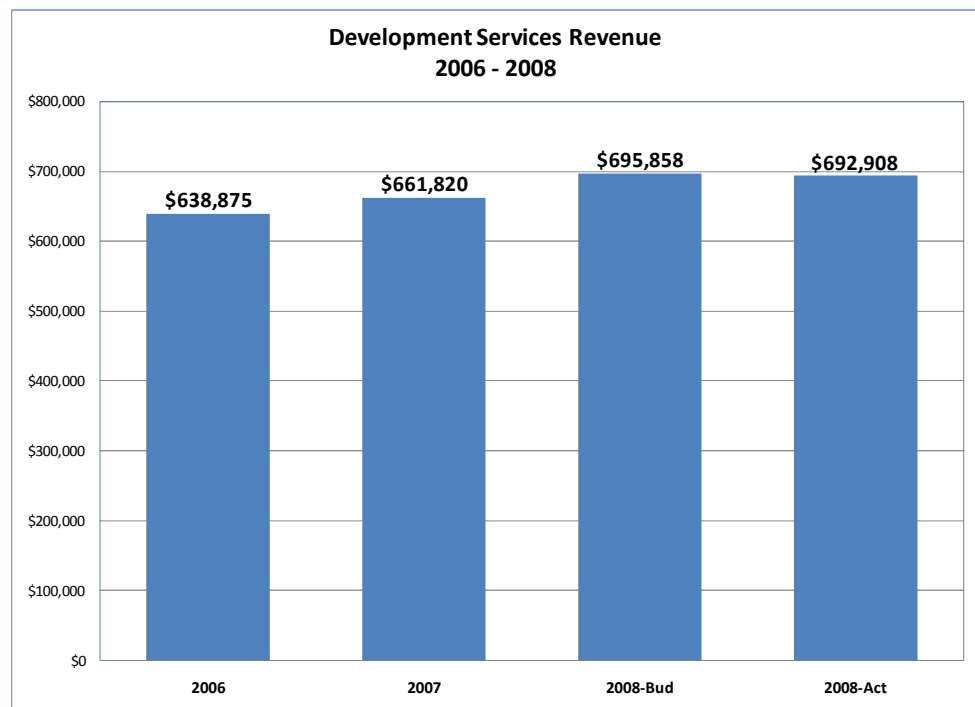
The following table presents a comparison of State-Shared revenues received year-to-date between 2006 and 2008. State-shared revenues totaled \$1,147,614 through 2008, which is \$95,791, or 7.7% below the budget estimate (\$1,243,405). The decrease is attributable again to current economic conditions. For example, the City Assistance funds, which is established by State Senate Bill #6050, allocates a portion of the State's real estate excise tax to replace a portion of the financial assistance eliminated following Initiative 695, but because of a slowdown in real estate activity, the State's REET collections were 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 more than offset with additional revenues dedicated specifically for street construction (e.g., unanticipated state & federal funds and investment income).

State-Shared Revenues Source	2006	2007	2008		Change (bud vs. act)		
			Budget	Actual	\$	%	
General Fund							
Liquor Excise Tax	\$ 87,442	\$ 116,825	\$ 88,806	\$ 101,079	\$ 12,273	13.8%	
Liquor Board Profits	111,012	149,158	154,735	140,650	(14,085)	-9.1%	
City Assistance	128,695	105,553	100,000	69,606	(30,394)	-30.4%	
Criminal Justice	14,503	19,737	19,981	26,123	6,142	30.7%	
Total General Fund	\$ 341,652	\$ 391,273	\$ 363,522	\$ 337,458	\$ (26,064)	-7.2%	
Street Operating Fund							
Fuel Tax-Street Operating	324,909	338,031	351,849	323,325	(28,524)	-8.1%	
Total Street Operating Fund	\$ 666,561	\$ 729,304	\$ 715,371	\$ 660,783	\$ (54,588)	-7.6%	
Street Construction Fund							
Fuel Tax-Street Constructio	150,104	156,166	164,512	149,373	(15,139)	-9.2%	
Total Street Construction Fi	\$ 150,104	\$ 156,166	\$ 164,512	\$ 149,373	\$ (15,139)	-9.2%	
Total State-Shared Revenue	\$ 1,158,317	\$ 1,276,743	\$ 1,243,405	\$ 1,147,614	\$ (95,791)	-7.7%	

Development Services Fees

The following graph and table illustrate Development Services activity to include building permits, engineering, and plan check/zoning fee activity between 2006 and 2008. Overall, development services fees collected in 2008 totaled \$692,208, which is \$2,950 or 0.4% below the budget estimate (\$695,858).



Compared with 2007 activity (\$661,820), development services fee revenue has increased \$31,088 or 4.7%.

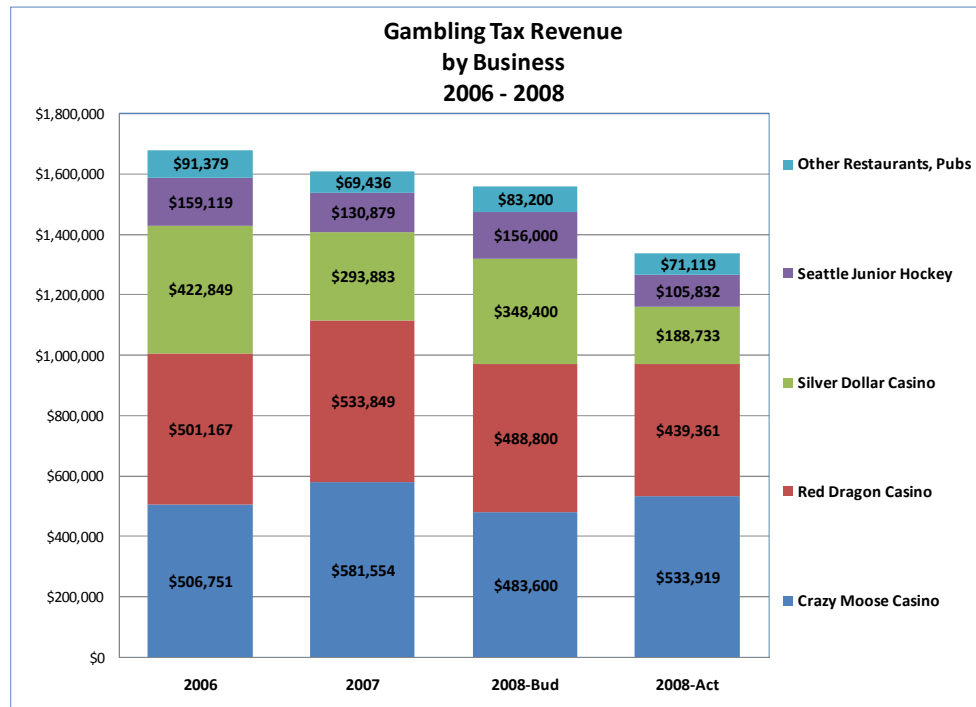
Development Services Source	2006	2007	2008		Change (bud vs. act)	
			Budget	Actual	\$	%
Building Permits	\$ 262,929	\$ 244,627	\$ 254,324	\$ 162,412	\$ (91,912)	-36.1%
Engineering Fees	210,208	136,077	250,545	115,574	(134,971)	-53.9%
Plan Check/Zoning Fees	165,738	281,116	190,989	414,922	223,933	117.2%
Total Development Services	\$ 638,875	\$ 661,820	\$ 695,858	\$ 692,908	\$ (2,950)	-0.4%

This increase is attributable to the forty development projects that are on the horizon for Mountlake Terrace. The anticipated level of activity—even in an economic downturn—

indicates: 1) the importance of code updates that the City Council has made during the last two years; and 2) the strong interest in the community, including the future Town Center/Downtown. The centerpiece of the city's economic development strategy is the downtown where private investment and nearby public facilities will bring new relevance and vitality to the community. Projects in the planning stage include several that will total \$85-\$100 million in private investment.

Gambling Tax

The following graph and table summarize gambling tax revenue collections between 2006 and 2008. In 2008, gambling tax collections totaled \$1,338,964, which is \$221,036, or 14.2% below the budget estimate (\$1,560,000). Compared to 2007 activity (\$1,609,601), gambling tax collections have decreased

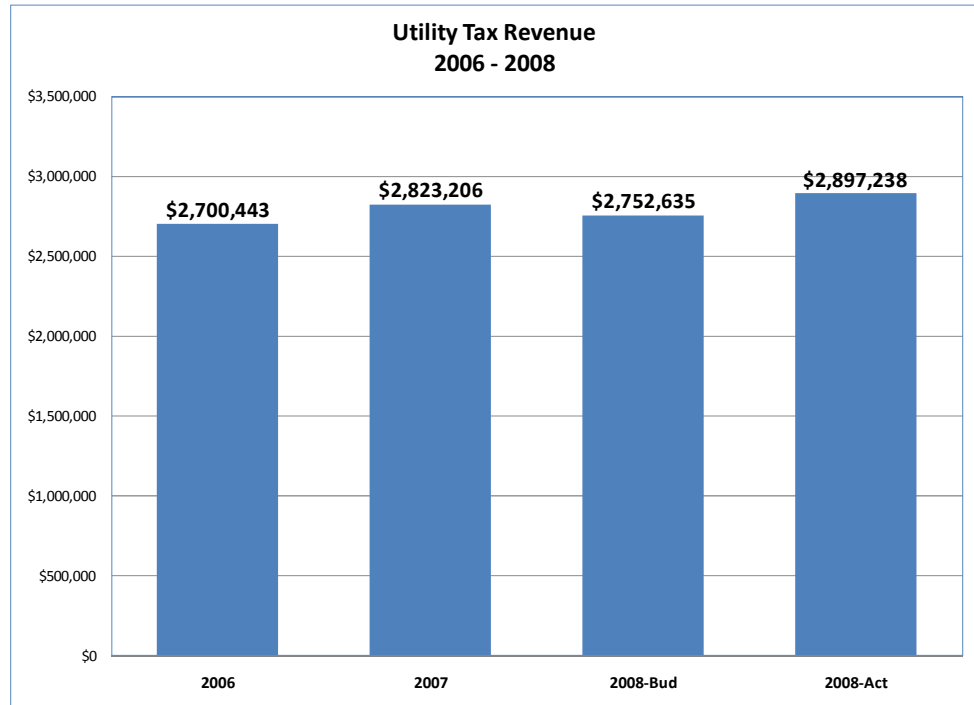


\$270,637, or 16.8%. The decrease in gambling tax revenue is primarily attributable to the closure of Silver Dollars Casino in late 2008 coupled with the economic slowdown and major snow events in December. Of particular concern is the City's reliance on gambling taxes for basic municipal services – 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 Silver Dollar Casino, we need to look for other revenue; otherwise municipal services will be impacted.

Gambling Taxes	2006	2007	2008		Change (bud vs. act)		
			Budget	Actual	\$	%	
<i>Gambling Type</i>							
Punchboard & Pull tabs (non	\$ 77,177	\$ 93,129	\$ 100,000	\$ 80,264	\$ (19,736)	-19.7%	
Punchboard & Pull tabs (con	151,890	112,222	109,700	95,558	(14,142)	-12.9%	
Bingo & Raffles	56,907	37,750	46,636	25,569	(21,067)	-45.2%	
Social Card Games	1,395,290	1,366,499	1,303,664	1,137,574	(166,090)	-12.7%	
Total Gambling Type	\$ 1,681,265	\$ 1,609,601	\$ 1,560,000	\$ 1,338,964	\$ (221,036)	-14.2%	
<i>Gambling Business</i>							
Crazy Moose Casino	\$ 506,751	\$ 581,554	\$ 483,600	\$ 533,919	\$ 50,319	10.4%	
Red Dragon Casino	501,167	533,849	488,800	439,361	(49,439)	-10.1%	
Silver Dollar Casino	422,849	293,883	348,400	188,733	(159,667)	-45.8%	
Seattle Junior Hockey	159,119	130,879	156,000	105,832	(50,168)	-32.2%	
Other Restaurants, Pubs	91,379	69,436	83,200	71,119	(12,081)	-14.5%	
Total Gambling Business	\$ 1,681,265	\$ 1,609,601	\$ 1,560,000	\$ 1,338,964	\$ (221,036)	-14.2%	

Utility Tax

The following graph and table summarize utility tax revenue collections between 2006 and 2008. In 2008, utility tax collections totaled \$2,897,238, which is \$144,603, or 5.3% above the budget estimate (\$2,752,635), which is primarily attributable to continuing growth in the gas and cable industries, resulting in increased tax collections.

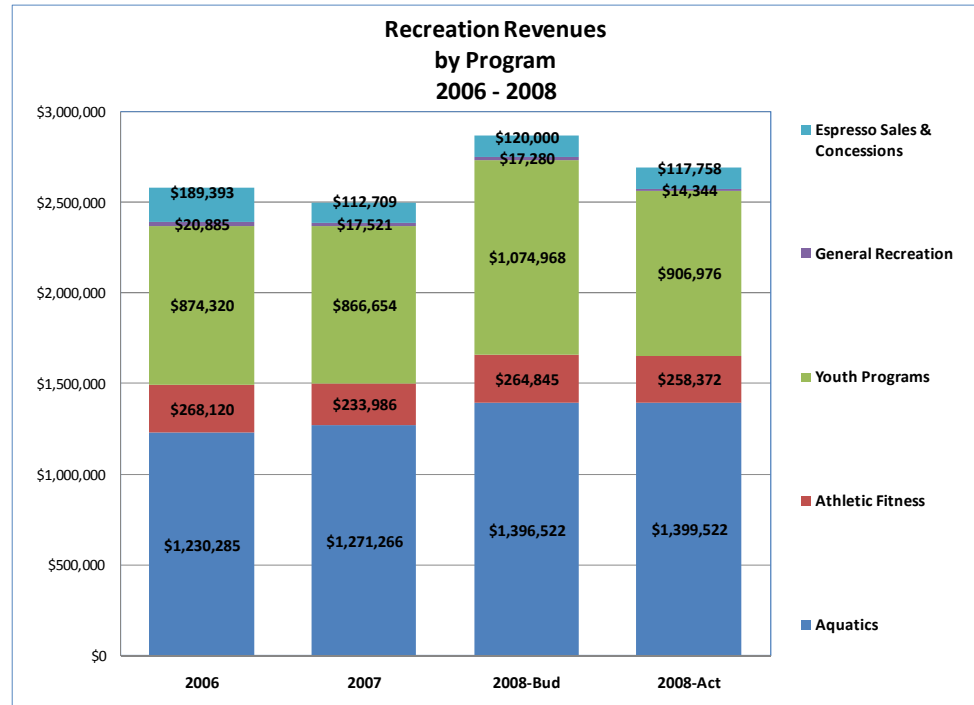


Compared to 2007 activity (\$2,823,206), utility tax collections have grown \$74,032, or 2.6%.

Utility Tax Source	2006	2007	2008		Change (bud vs. act)	
			Budget	Actual	\$	%
Gas	\$ 260,768	\$ 296,667	\$ 228,094	\$ 288,312	\$ 60,218	26.4%
Solid Waste	209,074	201,474	234,327	249,033	14,706	6.3%
Telephone	839,932	863,848	806,284	839,532	33,248	4.1%
Electricity	644,955	671,094	678,976	680,818	1,842	0.3%
Cable	178,069	197,128	162,370	206,072	43,702	26.9%
City Utilities	567,645	592,995	642,584	633,471	(9,113)	-1.4%
Total Utility Tax Revenues	\$ 2,700,443	\$ 2,823,206	\$ 2,752,635	\$ 2,897,238	\$ 144,603	5.3%

Recreation Program

The following graph and table summarize recreation fee revenue collections between 2006 and 2008. In 2008, recreation fee collections totaled \$2,696,972, which is \$176,643, or 6.1% below the budget estimate (\$2,873,615), which is primarily attributable to not meeting projections for both dance programs and



youth camps. However, compared to 2007 activity (\$2,502,136), recreation fee collections have grown \$194,836, or 7.8%, which is primarily attributable to increased recreation activity and opportunities provided by the City across all programs including youth camps. In addition, the program's cost recovery ratio increased to 80.9% in 2008 from 78.1% in 2007, resulting in a lower General Fund subsidy.

Recreation Program Source & Uses	2006	2007	2008		Change (bud vs. act)	
			Budget	Actual	\$	%
<i>Recreation Fees</i>						
Aquatics	\$ 1,230,285	\$ 1,271,266	\$ 1,396,522	\$ 1,399,522	\$ 3,000	0.2%
Athletic Fitness	268,120	233,986	264,845	258,372	(6,473)	-2.4%
Youth Programs	874,320	866,654	1,074,968	906,976	(167,992)	-15.6%
General Recreation	20,885	17,521	17,280	14,344	(2,936)	-17.0%
Espresso Sales & Concessions	189,393	112,709	120,000	117,758	(2,242)	-1.9%
Program Fees	\$ 2,583,003	\$ 2,502,136	\$ 2,873,615	\$ 2,696,972	\$ (176,643)	-6.1%
<i>Recreation Program</i>						
Aquatics	\$ 1,675,796	\$ 1,698,494	\$ 1,748,123	\$ 1,712,871	\$ (35,252)	-2.0%
Athletic Fitness	339,370	335,439	421,798	389,793	(32,005)	-7.6%
Youth Programs	1,154,261	1,142,767	1,246,685	1,207,971	(38,714)	-3.1%
General Recreation	39,015	25,353	27,619	22,624	(4,995)	-18.1%
Program Costs	\$ 3,208,442	\$ 3,202,053	\$ 3,444,225	\$ 3,333,259	\$ (110,966)	-3.2%
General Fund Subsidy *	\$ (625,439)	\$ (699,917)	\$ (570,610)	\$ (636,287)	\$ (65,677)	11.5%
Cost Recovery Ratio	80.5%	78.1%	83.4%	80.9%	-2.5%	-3.0%

* An additional General Fund transfer totaling \$46,618 is needed in 2008 to ensure a positive cash balance in the Recreation Fund. This amount will be credited toward the 2009 General Fund subsidy.

Other General Government Revenues

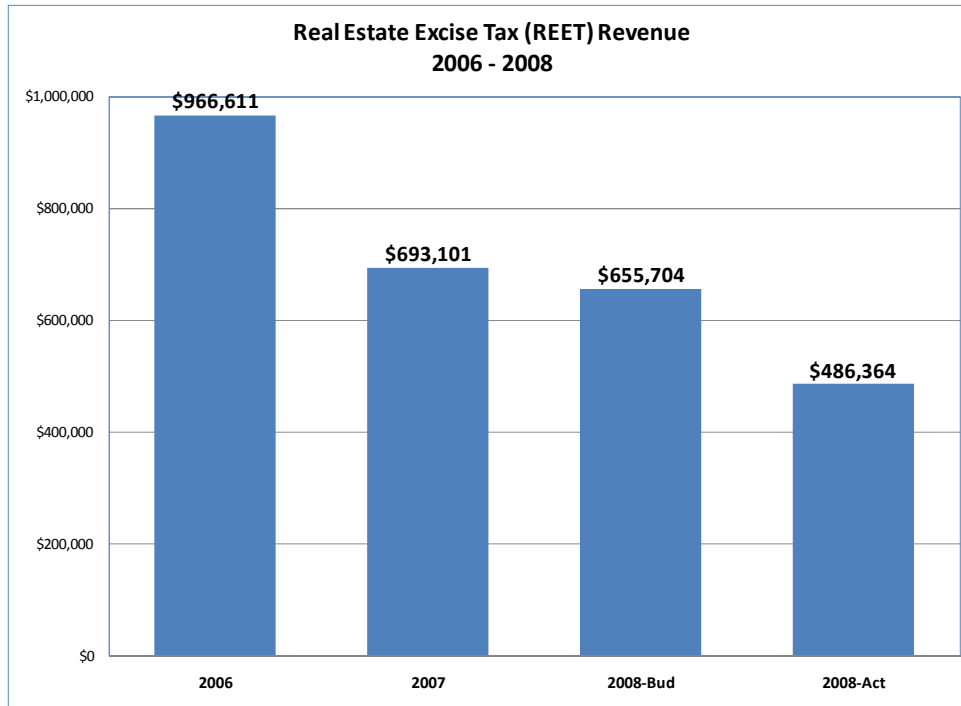
- Property tax revenues were slightly below budget, coming in at 97.3% of the revised budget. The difference between the budget and what was actually received in 2008 reflects primarily a lag in collection of property taxes.
- Admission taxes totaled \$135,075 for the year, which is only 82.8% of the adopted budget and is indicative of fewer movie ticket sales at the Regal Mountlake 9 Theatre, possibly due to the newer Loews 16 theatre in Lynnwood. This revenue has been decreasing over the past four years, after peaking at \$212,425 in 2004. The theater closed in early 2009 for remodeling and expected to reopen in late May as a Cinebarre, where moviegoers will be able to eat while they watch.
- The City received \$84,000 of golf course rent, which is consistent with the terms of the revised lease agreement between the City and Hardy Golf, who operate the Ballinger Lake Golf Course.
- Transport fees exceeded budgetary estimates by \$91,745 or 32.1%.
- Fines and forfeitures revenues exceeded budgetary estimates by \$40,775 or 16.0%. In addition, this revenue source, which is comprised primarily of traffic infractions and criminal citations increased \$32,015 or 12.1% from 2007 activity.
- Home monitoring revenues were slightly below estimates, totaling \$62,258 or 82% of the budget estimate. However, this revenue source has increased substantially from 2007, up \$27,354 or 78.4% reflecting a more proactive approach to the use of this program.
- General Fund investment interest revenues total \$190,364, which is \$47,760 or 2.01% below the budget estimate, due primarily to the volatility of the investment resulting in for example the Fed Funds rate dropping from 4.25% at the beginning of the year to a range of 0.00% to 0.25% at the end of 2008. 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. The balance of unused funds will carry forward and be reappropriated in 2009.

Sources & Uses Capital Improvement Funds	2006	2007	2008		Change (bud vs. act)	
			Budget	Actual	\$	%
Beginning Fund Balances	\$ 3,575,170	\$ 4,597,315	\$ 6,741,579	\$ 6,741,579	\$ -	0.0%
Operating Revenues						
Real Estate Excise Tax	966,611	693,101	655,704	486,364	(169,340)	-25.8%
Motor Vehicle Fuel Tax	150,104	156,166	164,512	149,373	(15,139)	-9.2%
Cable PEG Fees	16,796	16,988	17,000	16,916	(84)	-0.5%
Transportation Impact Fees	-	-	260,000	2,334	(257,666)	-99.1%
Park Impact Fees	-	-	56,213	4,224	(51,989)	-92.5%
Investment Interest/Other	165,996	282,880	224,199	257,504	33,305	14.9%
Subtotal Operating Revenue	1,299,507	1,149,135	1,377,628	916,715	(460,913)	-33.5%
Other Financing Sources						
Transfer In: General Fund	741,756	2,126,000	706,000	356,000	(350,000)	-49.6%
Transfer In: Street Operating Fund	419,407	-	-	-	-	n/a
Transfer In: REET Fund	155,000	1,775,589	228,000	228,000	-	0.0%
Transfer In: Accum Leave Reserve Fund	-	500,000	-	-	-	n/a
Transfer In: Facilities Construction Fund	11,722	299,708	-	-	-	n/a
Grants	398,257	172,558	173,900	118,853	(55,047)	-31.7%
Subtotal Other Financing Sources	1,726,142	4,873,855	1,107,900	702,853	(405,047)	-36.6%
Total Capital Improvement Funds	\$ 6,600,819	\$ 10,620,305	\$ 9,227,107	\$ 8,361,147	(865,960)	-9.4%
Capital Program						
Overlay Program	\$ 881,419	\$ 483,158	\$ 1,253,957	\$ 474,248	\$ (779,709)	-62.2%
Chip & Slurry Seal Program	211,091	155,610	202,000	236,245	34,245	17.0%
ADA Sidewalk Program	-	-	50,000	-	(50,000)	-100.0%
Traffic Calming Program	1,695	5,995	20,000	15,152	(4,848)	-24.2%
Bicycle Route Program	-	-	20,000	-	(20,000)	-100.0%
Sidewalk Program	48,175	294,480	185,172	55,067	(130,105)	-70.3%
Transportation Plan	-	75,057	270	-	(270)	-100.0%
Traffic & Signal Control Program	182,470	-	482,405	26,072	(456,333)	-94.6%
Interurban Trail Link	39	4,681	142,019	150,256	8,237	5.8%
Street Reconstruction	8,145	13,659	322,256	16,960	(305,296)	-94.7%
Engineering Services	87,000	184,455	122,458	238,244	115,786	94.6%
Capital-Artwork	-	-	25,000	7,500	(17,500)	-70.0%
Capital-Information Technology	65,856	144,111	346,729	166,196	(180,533)	-52.1%
Capital-Community & Economic Developm	-	-	85,000	123,940	38,940	45.8%
Capital-Property Management	54,870	150,881	1,115,425	481,385	(634,040)	-56.8%
Capital-Parks	-	114,128	444,819	280,419	(164,400)	-37.0%
Capital-Recreation	29,182	13,719	26,200	24,870	(1,330)	-5.1%
Capital-Police	81,226	-	78,900	71,206	(7,694)	-9.8%
Capital-Future Investments	-	320,953	-	-	-	n/a
Subtotal Other Financing Uses	1,651,168	1,960,887	4,922,610	2,367,760	(2,554,850)	-51.9%
Transfer Out (Debt Service & CIP)	352,336	1,917,839	370,250	370,250	-	0.0%
Total Capital Improvement Funds	\$ 2,003,504	\$ 3,878,726	\$ 5,292,860	\$ 2,738,010	(2,554,850)	-48.3%
Fund Balances						
Designated/Reserved:						
P.E.G. (Cable Fees)	\$ 32,309	\$ 37,476	\$ 54,476	\$ 47,886	\$ (6,590)	-12.1%
Transportation Impact Fees	-	-	270,400	2,334	(268,066)	-99.1%
Park Impact Fees	56,213	56,213	-	10,110	10,110	n/a
Capital Improvements	4,508,793	6,647,890	3,609,371	5,562,807	1,953,436	54.1%
Total Ending Fund Balances	\$ 4,597,315	\$ 6,741,579	\$ 3,934,247	\$ 5,623,137	\$ 1,688,890	42.9%

Real Estate Excise Taxes



The following graph and table illustrate collection history for the 1st and 2nd 1/4 percent real estate excise taxes (REET). The table and graph both reflect the cyclical variation in this revenue source. During 2008, REET revenues (\$486,364) were under revised budgetary estimates (\$655,704) by \$169,340 or 25.8%. Compared with 2007 activity

(\$693,101), REET revenues have decreased \$206,737 or 29.8%.

The recent downturn in this revenue source is attributable to the current recession that began in late 2007. The result has been massive layoffs, growing level of unemployment, slumping home prices, a slowdown in consumer spending, a continued deterioration of consumer confidence, and tight credit markets. All of these factors have negatively impacted the real estate market locally, regionally and nationally.

Real Estate Excise Tax Month	2006	2007	2008		Change (bud vs. act)	
			Budget	Actual	\$	%
January	\$ 40,033	\$ 47,661	\$ 30,687	\$ 40,985	\$ 10,298	33.6%
February	35,329	34,742	32,195	34,647	2,452	7.6%
March	65,065	61,674	47,866	34,183	(13,683)	-28.6%
April	64,087	66,041	48,719	38,536	(10,183)	-20.9%
May	67,692	88,856	62,095	128,309	66,214	106.6%
June	213,025	112,523	84,258	43,814	(40,444)	-48.0%
July	135,618	72,816	84,324	33,147	(51,177)	-60.7%
August	63,927	56,712	57,702	28,679	(29,023)	-50.3%
September	72,803	41,230	54,686	47,809	(6,877)	-12.6%
October	110,243	39,594	59,603	28,369	(31,234)	-52.4%
November	51,404	43,308	48,522	12,471	(36,051)	-74.3%
December	47,385	27,944	45,047	15,415	(29,632)	-65.8%
Total REET	\$ 966,611	\$ 693,101	\$ 655,704	\$ 486,364	\$ (169,340)	-25.8%

The one bit of 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 energy costs and the global economic slowdown. 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 over the last 12-15 months – totals more than \$2.441 million dedicated for much needed capital investments:

- \$500,000 - FY 2008 federal appropriations for phase 1 of downtown water main project (contract awarded last month – water utility fund);
- \$500,000 - FY 2009 appropriations for phase 2 of downtown water main project (water utility fund);
- \$1,000,000 - ARRA 2009 (federal stimulus package) in support of 52nd Avenue Reconstruction/Overlay project;
- \$245,995 - State TIB funds in support of 230th Street Reconstruction project (sidewalks); and
- \$195,254 - CDBG funds in support of sidewalk project adjacent to Jack Long Park (222nd Street SW between 58th and 60th Avenues W) – Snohomish County Council expected to approve this month.

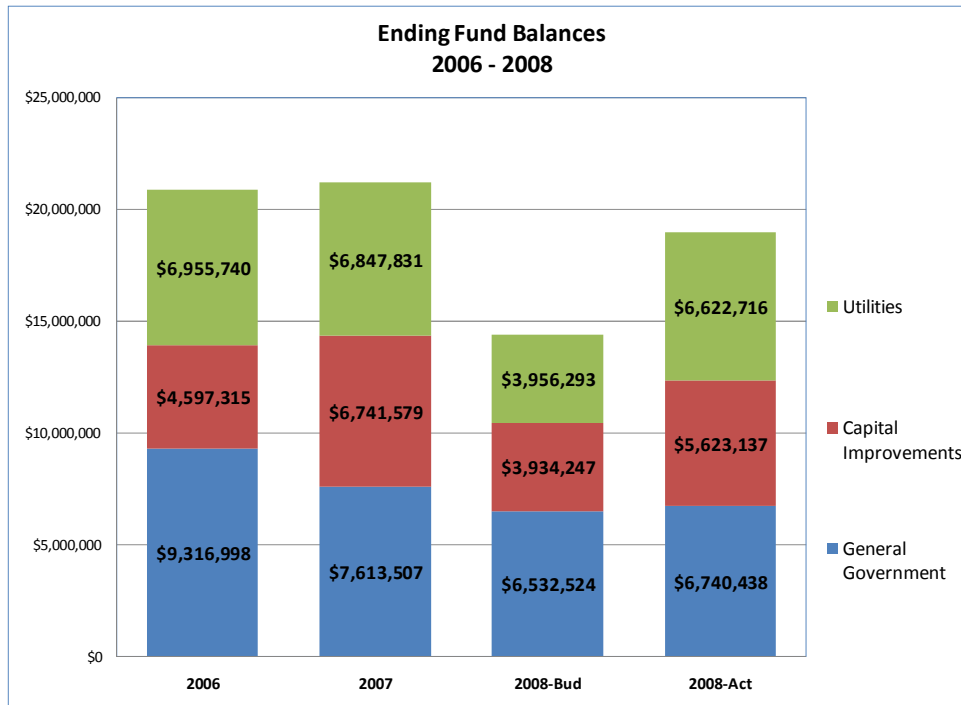
Utility Funds

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 exceeded budgetary estimates by \$40,926 or 4.2% while operating expenditures are under budgetary estimates by \$147,475 or 14.0% due primarily to lower than anticipated maintenance costs. Compared to 2007, operating revenues increased \$86,770 or 9.3% and operating expenditures were flat, increasing \$3,515 or 0.4%.
- **Water:** Water operating revenues exceeded budgetary estimates by \$103,632 or 3.9% while operating expenditures are under budgetary estimates by \$180,102 or 7.3% due primarily to lower than anticipated wholesale water costs. Compared to 2007, operating revenues increased \$225,622 or 8.9% and operating expenditures declined \$35,088 or 1.5% due primarily to lower debt service payments on an outstanding public works trust fund loan.
- **Sewer:** Sewer operating revenues fell short of budgetary estimates by \$79,877 or 2.5%. However, operating expenditures were under budgetary estimates by \$77,896 or 2.9%. Compared to 2007, operating revenues increased \$244,181 or 8.7% and operating expenditures increased \$161,796 or 6.6%, due primarily to increased sewage treatment costs.

Sources & Uses Utility Funds	2006	2007	2008		Change (bud vs. act)	
			Budget	Actual	\$	%
Beginning Fund Balances	\$ 7,286,594	\$ 6,847,767	\$ 6,945,071	\$ 6,936,129	\$ (8,942)	-0.1%
Operating Revenues						
Storm Water	917,421	931,680	977,524	1,018,450	40,926	4.2%
Water	2,651,866	2,529,983	2,651,973	2,755,605	103,632	3.9%
Sewer	2,889,815	2,812,790	3,136,848	3,056,971	(79,877)	-2.5%
Subtotal Operating Revenues	6,459,102	6,274,453	6,766,345	6,831,026	64,681	1.0%
Operating Expenditures						
Storm Water	847,183	906,074	1,057,064	909,589	(147,475)	-14.0%
Water	2,327,798	2,309,016	2,454,030	2,273,928	(180,102)	-7.3%
Sewer	2,317,565	2,445,042	2,684,734	2,606,838	(77,896)	-2.9%
Debt Service	105,010	105,687	105,206	88,882	(16,324)	-15.5%
Subtotal Operating Expenditures	5,597,556	5,765,819	6,301,034	5,879,237	(421,797)	-6.7%
Operating Surplus (Deficit)	861,546	508,634	465,311	951,789	486,478	104.5%
Other Financing Sources						
Grants and PWTFL	-	291,200	158,500	162,622	4,122	2.6%
Loan Proceeds	-	-	2,000,000	-	(2,000,000)	-100.0%
Transfer from Utility Funds	1,717,093	3,301,158	2,763,566	4,852,924	2,089,358	75.6%
Subtotal Other Financing Uses	1,717,093	3,592,358	4,922,066	5,015,546	93,480	1.9%
Other Financing Uses						
Construction Projects	1,300,197	904,846	5,717,795	1,516,706	(4,201,089)	-73.5%
Transfer to Utility Funds	1,609,296	3,196,082	2,658,360	4,764,042	2,105,682	79.2%
Subtotal Other Financing Uses	2,909,493	4,100,928	8,376,155	6,280,748	(2,095,407)	-25.0%
Fund Balances						
Reserves (15% of Oper Exp)	-	-	929,374	913,941	(15,433)	-1.7%
Designated/Reserved:						
Storm Water	1,704,626	1,514,300	900,108	1,098,414	198,306	22.0%
Water	2,951,524	3,260,139	968,462	2,576,703	1,608,241	166.1%
Sewer	2,148,133	2,073,392	1,158,349	2,033,658	875,309	75.6%
Debt Service	151,457	-	-	-	-	n/a
Undesignated/Unreserved	-	-	-	-	-	n/a
Total Ending Fund Balances	\$ 6,955,740	\$ 6,847,831	\$ 3,956,293	\$ 6,622,716	\$ 2,666,423	67.4%

Ending Fund Balances/Reserves



The following graph and table illustrates the City's ending fund balances between 2006 and 2008. The fund balances are segregated into three major components; reserved/designated (such as Strategic Reserve), contingency and unreserved/undesig nated.

Ending Fund Balances All Funds			2008		Change (bud vs. act)	
	2006	2007	Budget	Actual	\$	%
<i>General Government</i>						
Reserved/Designated						
Reserves (5% of GF Oper Exp)	\$ 694,768	\$ 672,383	\$ 729,525	\$ 729,525	\$ -	0.0%
Strategic Reserve (5% of GF Oper Exp)	916,507	959,753	997,872	995,309	(2,563)	-0.3%
Reserved/Designated						
Encumbrances	402,437	179,672	-	185,553	185,553	n/a
Equipment Replacement & Reserve	2,294,889	2,307,593	2,380,908	2,345,407	(35,501)	-1.5%
Hotel/Motel-Tourism	35,922	32,907	793	34,979	34,186	4311.0%
Solid Waste-Billing Exemptions	58,359	61,628	52,701	40,531	(12,170)	-23.1%
Accumulated Leave Reserve	761,751	283,723	234,883	234,381	(502)	-0.2%
Subtotal Reserved/Designated	5,164,633	4,497,659	4,396,682	4,565,685	169,003	3.8%
Contingency (2% of GF Oper Exp)	-	-	229,720	-	(229,720)	-100.0%
Undesignated/Unreserved (one-time)	4,152,365	3,115,848	1,906,122	2,174,753	268,631	14.1%
Total General Government	\$ 9,316,998	\$ 7,613,507	\$ 6,532,524	\$ 6,740,438	\$ 207,914	3.2%
<i>Capital Improvement</i>						
Reserved/Designated						
P.E.G. (Cable Fees)	32,309	37,476	54,476	47,886	(6,590)	-12.1%
Transportation Impact Fees	-	-	270,400	2,334	(268,066)	-99.1%
Park Impact Fees	56,213	56,213	-	10,110	10,110	n/a
Capital Improvements	4,508,793	6,647,890	3,609,371	5,562,807	1,953,436	54.1%
Total Capital Improvement	\$ 4,597,315	\$ 6,741,579	\$ 3,934,247	\$ 5,623,137	\$ 1,688,890	42.9%
<i>Utilities</i>						
Reserves (15% of Oper Exp)	-	-	929,374	913,941	(15,433)	-1.7%
Designated/Reserved:						
Storm Water	1,704,626	1,514,300	900,108	1,098,414	198,306	22.0%
Water	2,951,524	3,260,139	968,462	2,576,703	1,608,241	166.1%
Sewer	2,148,133	2,073,392	1,158,349	2,033,658	875,309	75.6%
Debt Service	151,457	-	-	-	-	n/a
Total Utilities	\$ 6,955,740	\$ 6,847,831	\$ 3,956,293	\$ 6,622,716	\$ 2,666,423	67.4%
Total Ending Fund Balances	\$20,870,053	\$21,202,917	\$14,423,064	\$18,986,291	\$ 4,563,227	31.6%

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.

Reserved/Designated Ending Fund Balances: The first component of ending fund balances, totaling \$4,565,685 in 2008, are those moneys which have been earmarked for a strategic reserve fund (\$995,309), equipment replacement reserves (\$2,345,407), accumulated leave reserves (\$234,381), and General Fund reserves totaling 5% of operating expenditures (\$729,525). This reserve designation also include encumbrances from prior years (\$185,553), funds dedicated solely for tourism purposes (\$34,979), and solid waste billing exemptions (\$40,531).

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 in the funds as well as utility funds

reserved for construction projects. All Capital Fund balances are reserved for capital construction projects.

Contingency Reserve Ending Fund Balances: The second component of ending fund balances are those funds reserved for unanticipated future expenditures. For 2009, contingency reserves totaled \$229,720; 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.

Unreserved/Undesignated Fund Balances: The unreserved/undesignated 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. The current unreserved/undesignated fund balances in the General Fund are set aside for future capital investments between 2009 and 2014.

Conclusion

There is no doubt that these are unprecedented times for our economy, both nationally and regionally. Economic activity continues to weaken across the country, the result of a recession that began in December 2007 and is expected to last at least through the end of 2009, perhaps longer.

The result has been massive layoffs, growing level of unemployment, slumping home prices, a slowdown in consumer spending, a continued deterioration of consumer confidence, and tight credit markets. How this saga will unfold this year and into 2010 and beyond is still unclear. The downside is that the worst may still yet to come (especially for local governments since the impact to local government typically lag as compared to the private sector) and it may be a year or even longer before the economy begins to recover.

The upside is that the City of Mountlake Terrace has implemented steps to mitigate the impact of this economic and financial crisis. The result is that we met our 2008 financial objectives and while we may experience even slower revenue growth (particularly sales and gambling tax receipts) than currently projected for 2009, the preventative approaches currently in place (that will continue indefinitely) will allow us to meet our financial objectives for 2009. We will continue to evaluate revenues and expenditures on a regular basis and allocate resources in a manner to mitigate the impact on City operations.

We will also continue to focus on economic development, primarily in our commercial areas, including our downtown to generate additional property and sales taxes. The generation of new revenues from redevelopment and revitalization in these areas will allow us to meet the growing demand for services. Other options include the restoration of the EMS levy, the formation of a Regional Fire Authority in partnership with our surrounding neighbors and Snohomish County Fire District #1 and the formation of a Transportation Benefit District (TBD) for capital investment purposes.

Despite the current economic volatility, services for residents have been maintained at current levels and the City is moving forward on many strategic fronts. At this time, no services to our residents will need to be reduced, eliminated or cut.