

MEMORANDUM

TO: City Council

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

DATE: June 3, 2010

SUBJECT: **Quarterly Financial Report
First Quarter -- January through March 2010**

Overview

This report is intended to provide an overview of financial activity that has taken place from January 1, 2010 through March 31, 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 March 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.

In summary, first 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.

The City's effectiveness in managing its financial resources during one of the most difficult economic times in several generations to include: a balanced budget; a 6-year financial forecast; ability to maintain current levels of service; an aggressive and proactive capital improvement plan; strong reserves; implementation of sound financial policies; and the implementation of action strategies and preventative measures to ensure we live within our means -- that are working -- is a positive reflection upon our organization.

Annual Audit

Our 2009 audit, in partnership with the State Auditor's Office (SAO) is underway. We are once again preparing 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). The 2009 CAFR is expected to be completed by the end of this month.

The result of this increased financial reporting is that for the third year 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.

The City of Mountlake Terrace is one of approximately 36 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. About 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, accountability and reporting for its citizens.

Executive Summary

A review of 2010 first quarter finances for the City of Mountlake Terrace show once again that during perhaps the darkest economic period since the Great Depression, our community continues to be in the enviable position of being able to maintain basic municipal services, while other communities throughout the region and country are cutting back those same services.

This is due in large part to the prudent financial discipline our City Council has implemented. Among other things, the City Council has committed to maintaining a balanced budget, adhering to a six-year financial forecast and continuing to focus on living within our means. While many communities are just now *reacting* to this economy, our City has been *proactive* over the past few years. We will continue this proactive approach in 2010 and beyond, just as we did in 2008 and 2009.

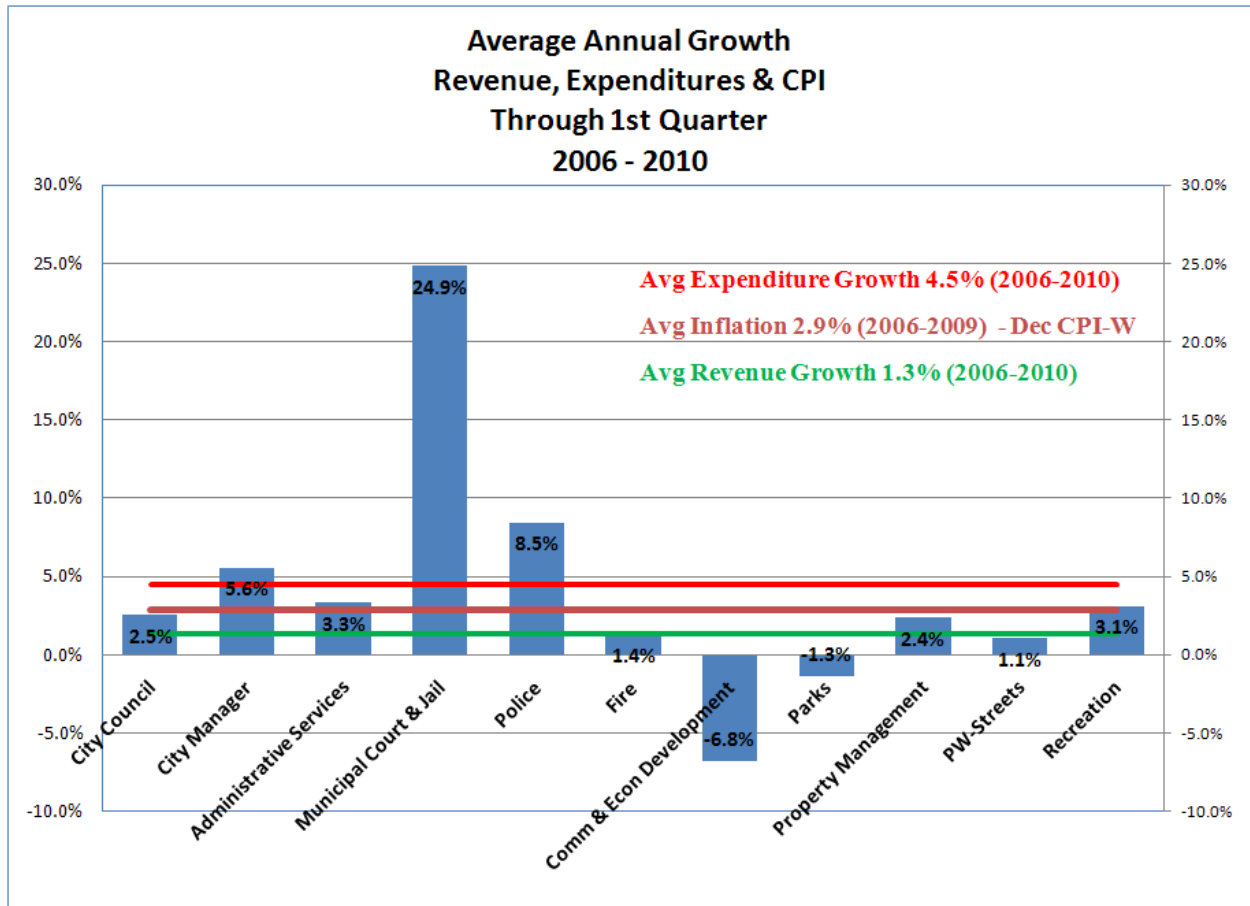
Of course, Mountlake Terrace is no exception as the economic recession continues to negatively impact City revenues, particularly General Fund revenues, which funds key municipal services such as police, jail, court, fire, EMS, streets, parks, and community and economic development. Even though we have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

On average, revenue growth through first quarter for the years 2006 through 2010 has averaged only 1.3%, most of this increase which is attributable to voter-approved EMS levy and increased development services fees in first quarter 2010. Meanwhile, inflation has averaged 2.9% per year for the years 2006 through 2009. On the other hand, operating expenditures continue to increase, an average of 4.5% for first quarter 2006 through 2010 driven primarily by increased personnel, healthcare and municipal court costs.

However, we continue to meet our operational objectives and our financial objectives through March 2010. For example, even though our general government sources were under budget by \$166,389 or 1.6%, expenditures savings totaled \$328,499 or 5.9% more than offsetting the slower than anticipated revenue collections. The result is that our bottom-line financial position in our general government funds was better than anticipated by \$162,110 or 3.3%.

The not so good news is that even with some reports that the national economy may have bottomed out; the difficulty for cities such as ours may just be beginning as is evident by our

decline in General Fund revenue collections the past few years. Local government finances tend to lag behind changing economic conditions by 18 months to several years. For this reason, the worse effects of the recession upon local governments such as ours may be 2010, 2011, 2012 and beyond.



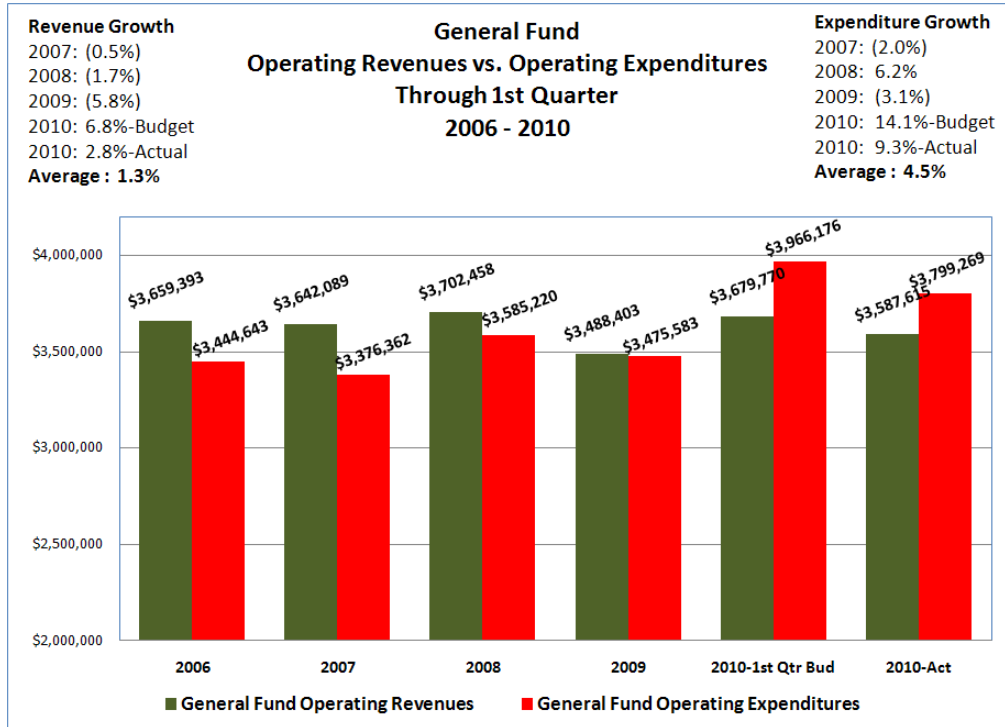
It is imperative that we continue with our proactive approach on controlling costs since it is unlikely that revenue collections will increase anytime in the near future. We will continue with these steps along with others we implemented in mid-2008 to mitigate the impact of the recession to ensure we meet our key operational and financial objectives in 2010 and beyond just as we did in 2008 and 2009. These steps will continue indefinitely to ensure services to our residents will not have to be reduced.

The result of this is during some of the most difficult years in recent memory, the City of Mountlake Terrace is in an enviable position of being to maintain basic municipal services as long as we continue to practice prudent financial such as having a balanced budget, staying the course with our six-year financial forecast and a continued focus to live within our means as outlined in the preventative measures we have put in place.

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.



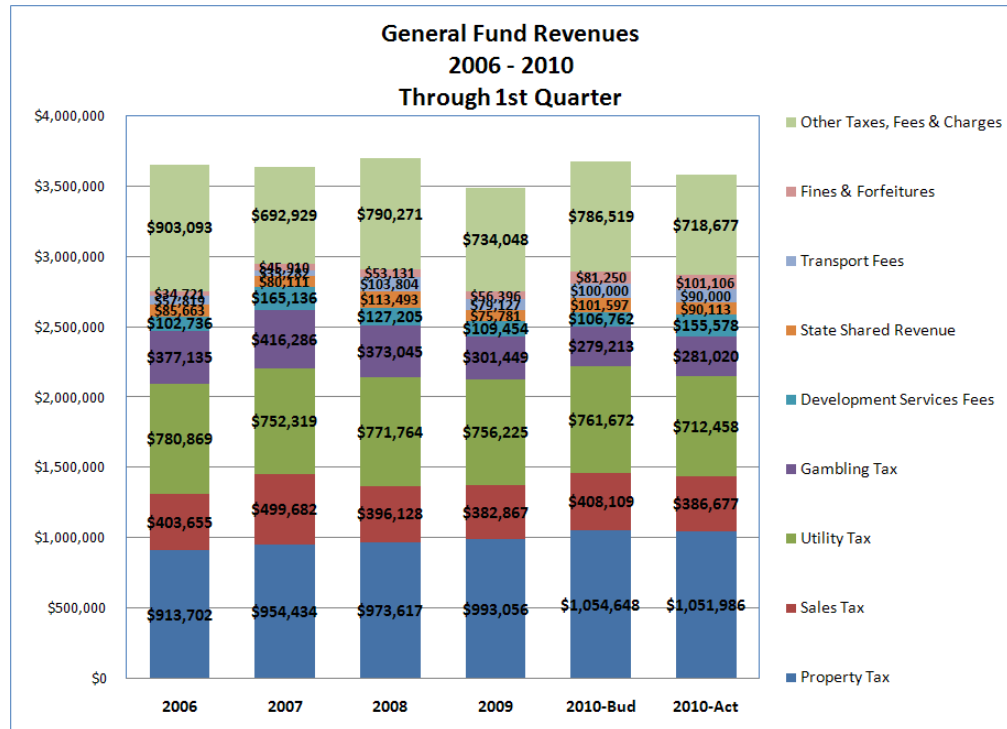
Resources by Fund					2010			Change (bud vs. act)	
	2006	2007	2008	2009	Annual	1st Quarter	Actual	\$	%
General Government									
Beginning Fund Balances	\$ 9,464,261	\$ 9,329,323	\$ 7,613,507	\$ 6,740,438	\$ 5,437,458	\$ 5,437,458	\$ 5,437,458	\$ -	0.0%
General									
Property Tax	3,722,059	3,722,182	3,787,483	3,859,928	4,218,591	1,054,648	1,051,986	(2,662)	-0.3%
Sales Tax	1,704,801	1,756,581	1,712,184	1,648,902	1,700,000	408,109	386,677	(21,432)	-5.3%
Utility Tax	2,700,443	2,823,206	2,897,238	2,896,446	3,046,687	761,672	712,458	(49,214)	-6.5%
Gambling Tax	1,681,265	1,609,601	1,338,964	1,036,730	1,116,850	279,213	281,020	1,808	0.6%
Other Taxes	141,588	138,687	138,814	75,458	124,000	31,000	19,957	(11,043)	-35.6%
Business & Animal Licenses	127,184	139,758	151,698	103,870	148,891	37,223	51,466	14,243	38.3%
Development Services Fees	638,875	661,820	515,504	556,047	508,392	106,762	155,578	48,816	45.7%
Cable & Solid Waste Franchise Fees	431,546	466,090	666,366	427,758	497,472	124,368	129,946	5,578	4.5%
State Shared & Intergov't	569,274	521,996	532,413	487,837	694,255	145,794	125,158	(20,636)	-14.2%
Transport Fees	270,067	311,483	377,845	377,134	400,000	100,000	90,000	(10,000)	-10.0%
Fines & Forfeitures	242,439	263,760	295,775	330,563	325,000	81,250	101,106	19,856	24.4%
Other Fees & Charges	2,411,950	1,769,874	1,734,268	1,882,852	1,983,930	495,983	469,200	(26,783)	-5.4%
Investment Income	211,529	307,416	190,364	117,668	215,000	53,750	13,063	(40,687)	-75.7%
Total General Fund Operating Revenues	14,853,020	14,492,454	14,338,916	13,801,193	14,979,068	3,679,770	3,587,615	(92,155)	-2.5%
Street Operating	367,879	379,475	358,187	343,282	348,974	80,264	78,452	(1,812)	-2.3%
Recreation	2,583,003	2,502,136	2,696,972	2,607,733	3,002,000	750,500	779,932	29,432	3.9%
Debt Service	201,204	192,197	168,371	9,376	3,000	750	3,848	3,098	413.1%
Total General Govt Operating Revenues	18,005,106	17,566,262	17,562,446	16,761,584	18,333,042	4,511,284	4,449,847	(61,437)	-1.4%
Other Financing Sources									
Strategic Reserve	35,297	43,246	35,556	25,492	30,000	5,768	5,768	-	0.0%
Fleet Management	769,249	775,957	825,413	727,802	762,605	125,574	125,574	-	0.0%
Hotel/Motel Tax	26,775	21,985	27,072	23,304	22,500	4,023	4,023	-	0.0%
Solid Waste Service	17,500	17,500	-	17,500	17,500	4,375	4,375	-	0.0%
Accumulated Leave Reserve	29,337	21,972	10,226	6,959	12,000	3,000	1,936	(1,064)	-35.5%
General	438,680	209,110	98,938	40,077	20,000	6,000	549	(5,451)	-90.9%
Street Operating	542,851	247,918	476,132	427,100	506,083	126,521	100,692	(25,829)	-20.4%
Recreation	604,854	696,617	682,363	622,229	571,164	142,791	70,183	(72,608)	-50.8%
Debt Service	628,825	623,700	637,407	846,613	441,846	110,462	110,462	-	0.0%
Fleet Management	3,911	-	35,948	79,455	86,500	6,615	6,615	-	0.0%
Total Other Financing Sources	3,097,279	2,658,005	2,829,055	2,816,531	2,470,198	535,129	430,177	(104,952)	-19.6%
Total All General Government Funds	\$30,566,646	\$29,553,590	\$28,005,008	\$26,318,553	\$26,240,699	\$10,483,871	\$10,317,482	\$ (166,389)	-1.6%

Revenues

Overall, General Fund operating revenues (\$3,587,615) collected in first quarter 2010 is below the budget estimate (\$3,679,770) by \$92,155 or 2.5%.

Compared with 2009 collections (\$3,488,403), operating revenues have increased

\$99,212 or 2.8%, due primarily to voter-approved EMS levy from November 2009, increased fines and forfeitures, and increased development services fees.



Total general government sources (\$10,317,482) are below the budget estimate (\$10,483,871) by \$166,389 or 1.6%. However, the shortfall is more than 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 Recreation Department and Public Works 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 92% for first quarter 2010 resulting in a reduced General Fund transfer totaling \$72,608. The Public Works Department achieved cost savings totaling \$25,829.

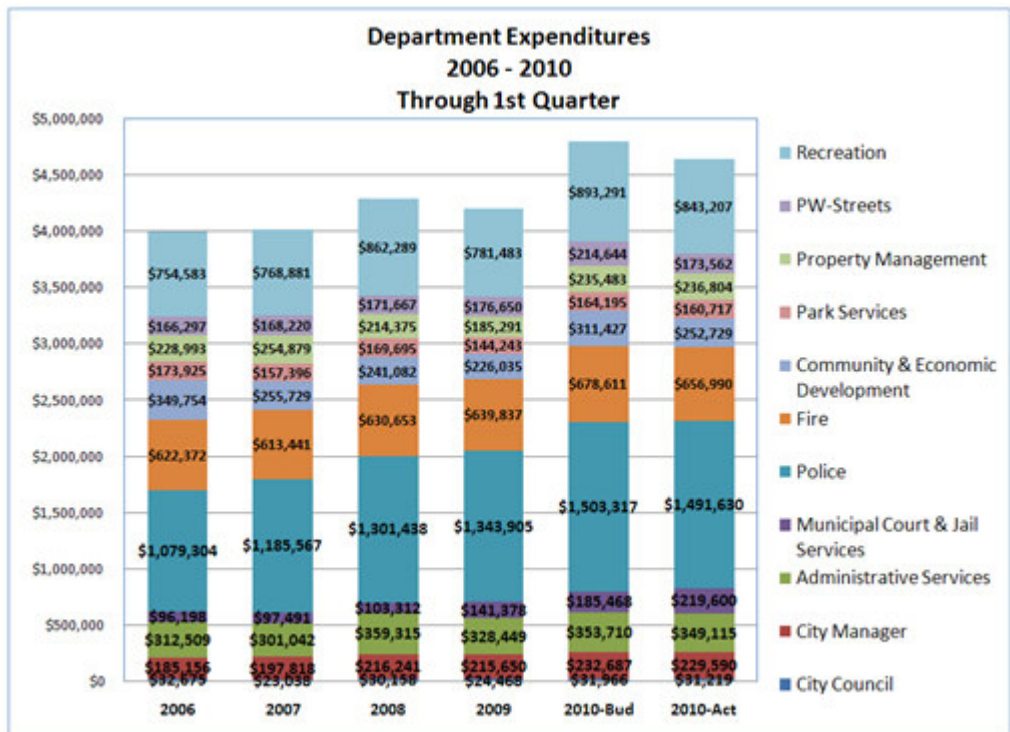
Expenditures

General Fund operating expenditures (\$3,799,269) during first quarter 2010 are below the budget estimate (\$3,966,176) by \$166,907 or 4.2%, which offsets the lower than anticipated general fund revenue collections. Likewise, total general government expenditures (\$5,264,911) are below the budget estimate (\$5,593,410) by \$328,499 or 5.9%, 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 that includes 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 (\$3,475,583), operating expenditures have increased \$323,686 or 9.3%, which is due primarily to increased court costs as the result of a more proactive police presence in the community, filling vacant police officer positions and increased insurance costs for both current employees and retired LEOFF 1 employees.

Expenditures by Fund					2010			Change (bud vs. act)	
	2006	2007	2008	2009	Budget		Actual	\$	%
					Annual	1st Quarter			
General Government									
General									
City Council	incl with CM	\$ 96,659	\$ 104,753	\$ 92,979	\$ 103,117	31,966	\$ 31,219	\$ (747)	-2.3%
City Manager	707,667	671,925	719,173	696,687	713,656	232,687	229,590	(3,097)	-1.3%
Administrative Services	1,269,046	1,374,134	1,460,074	1,331,808	1,310,036	353,710	349,115	(4,595)	-1.3%
Municipal Court & Jail Services	708,455	673,956	710,570	794,770	741,873	185,468	219,600	34,132	18.4%
Police	4,285,179	4,527,696	5,171,253	4,996,051	5,567,841	1,503,317	1,491,630	(11,687)	-0.8%
Fire	2,156,172	2,224,941	2,289,888	2,411,618	2,513,375	678,611	656,990	(21,621)	-3.2%
Community & Economic Development	1,437,758	1,034,661	1,038,427	831,051	1,153,432	311,427	252,729	(58,698)	-18.8%
Park Services	772,235	688,783	752,220	630,125	608,130	164,195	160,717	(3,478)	-2.1%
Property Management	1,074,654	910,583	860,196	808,120	872,159	235,483	236,804	1,321	0.6%
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	126,521	100,692	(25,829)	-20.4%
Oper Transfer Out-Recreation	419,854	511,617	497,363	437,229	386,164	96,541	23,933	(72,608)	-75.2%
Oper Transfer Out-Rec Debt Svc	185,000	185,000	185,000	185,000	185,000	46,250	46,250	-	0.0%
Total General Fund	13,895,360	13,444,323	14,575,206	13,642,538	14,660,866	3,966,176	3,799,269	(166,907)	-4.2%
Operating Surplus/(Deficit)	957,660	1,048,131	(236,290)	158,655	318,202	(286,406)	(211,654)	74,752	-26.1%
Street Operating	905,215	808,987	825,968	777,237	858,574	214,644	173,562	(41,082)	-19.1%
Recreation	3,208,442	3,202,052	3,333,259	3,255,891	3,573,164	893,291	843,207	(50,084)	-5.6%
Debt Service	823,478	822,448	805,778	454,965	493,038	4,260	4,260	-	0.0%
Total General Government Funds	18,832,495	18,277,810	19,540,211	18,130,631	19,585,642	5,078,371	4,820,298	(258,073)	-5.1%
Other Financing Uses									
Fleet Management	628,542	763,253	823,547	1,568,298	1,217,451	304,363	233,936	(70,427)	-23.1%
Hotel/Motel Tax	19,302	25,000	25,000	28,105	24,880	2,680	2,680	-	n/a
Solid Waste Service	25,199	14,231	21,097	30,345	30,426	9,323	9,323	-	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	196,174	196,174	-	0.0%
Strategic Reserve	419,407	-	-	300,000	10,000	2,500	2,500	-	0.0%
Other Financing Uses	2,417,153	3,662,273	1,724,359	2,750,464	2,304,490	515,040	444,613	(70,427)	-13.7%
Total All General Government Funds	\$21,249,648	\$21,940,083	\$21,264,570	\$20,881,095	\$21,890,132	\$ 5,593,410	\$ 5,264,911	\$ (328,499)	-5.9%

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

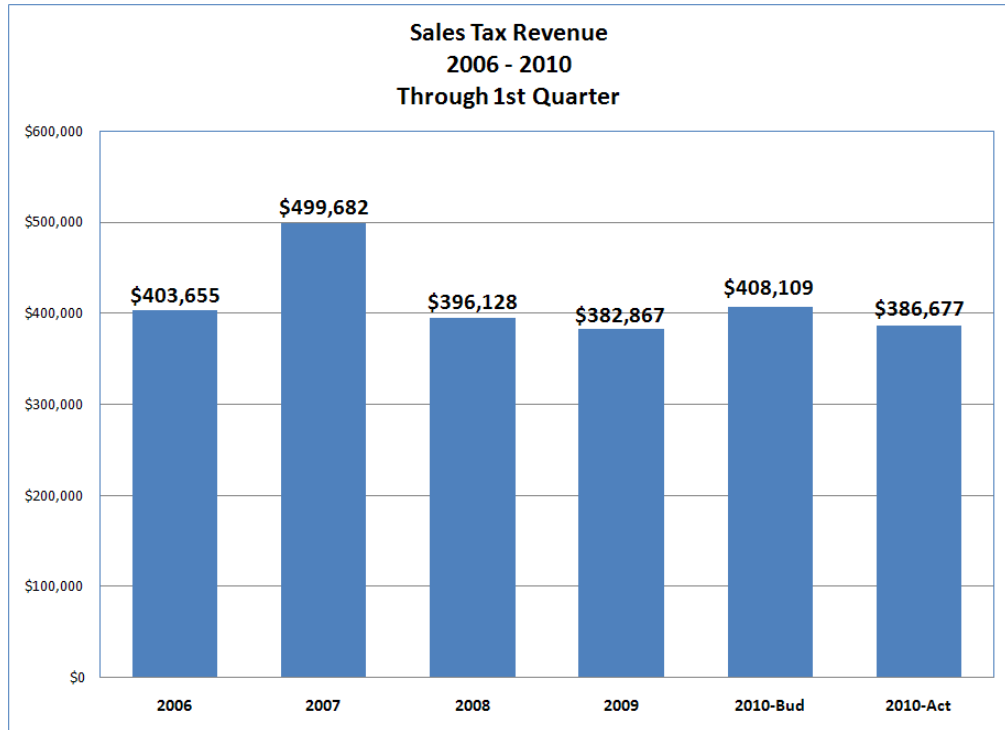


budget, reflecting again the financial prudence being practiced by department directors and their staff. The result is that while our major 2010 revenue collections continue to slow, particularly sales tax and utility tax, we have put in measures that are working to ensure: 1) we live within our means; 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 February sales activities, the City accrues sales tax revenue in March, and the City receives cash in April.

Actual sales tax proceeds through March 2010 total \$386,677, which

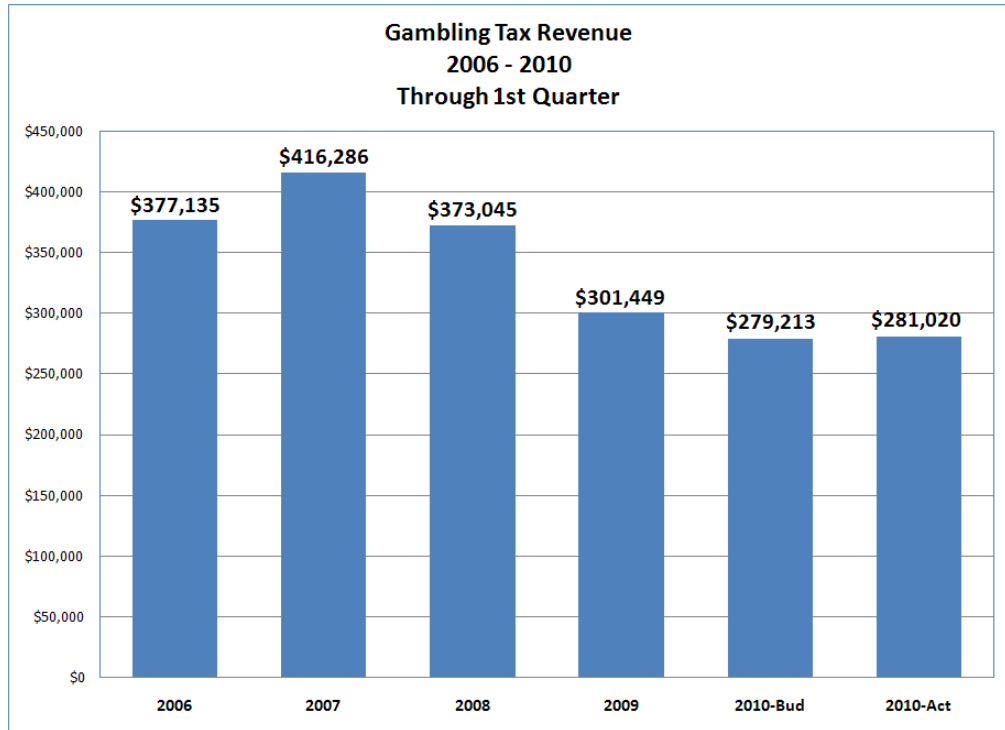


is \$21,432 or 5.3% below the budget estimate (\$408,109). This shortfall is a result of the current recession that began in December 2007, again reflecting the weak economic climate locally, regionally and nationally. The good news is compared to first quarter 2009 (\$382,867), sales tax collections have increased \$3,810 or 1.0%, due primarily to increased construction (e.g., Sound Transit's Freeway Station). However, we still lag far behind collections through first 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	\$ 117,270	\$ (13,235)	-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	142,028	(3,601)	-2.5%
April	131,338	130,211	133,987	128,375	130,473			
May	138,482	123,979	123,005	129,478	127,241			
June	151,226	161,593	153,441	132,794	153,642			
July	138,361	126,952	139,119	132,444	131,989			
August	140,179	133,653	132,166	122,100	131,458			
September	155,523	163,049	155,999	147,461	158,845			
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	\$ 386,677	\$ (21,432)	-5.3%

Gambling Tax

The following graph and table summarizes gambling tax revenue collections for first quarter 2006 through 2010. Through first quarter 2010, gambling tax collections totaled \$281,020, which is \$1,807, or 0.6% above the budget estimate (\$279,213). Compared to first quarter



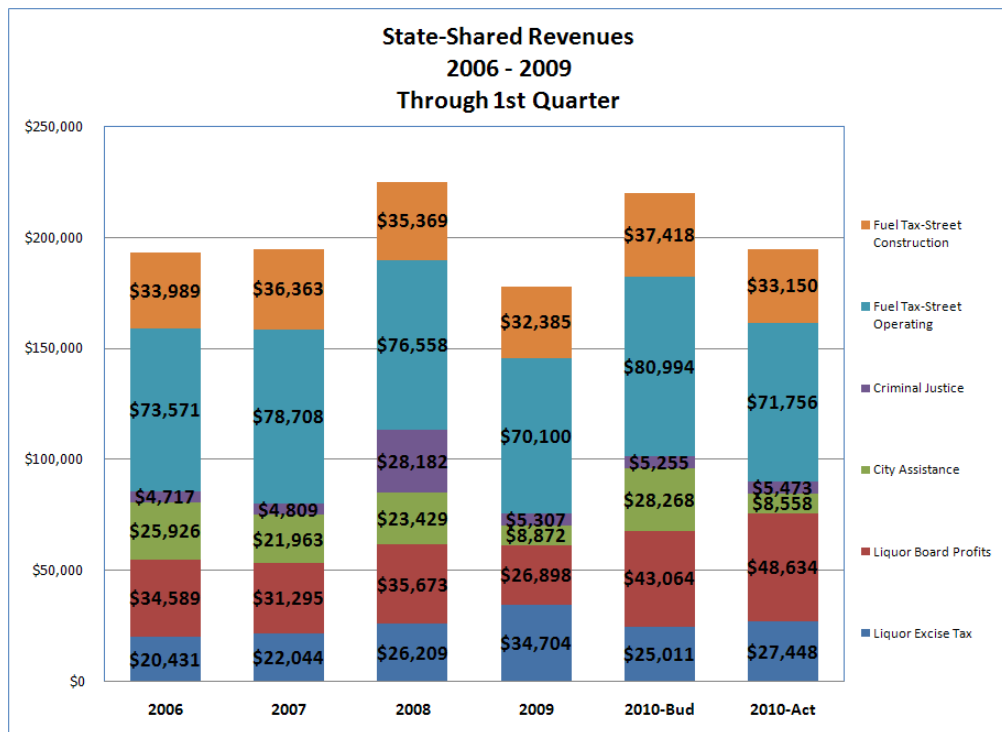
2009 activity (\$301,449), gambling tax collections have decreased \$20,429, or 6.8%.

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. While we are achieving our budget projections for this very volatile general fund revenue, we still lag far behind collections through first quarter for 2006 through 2009. 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	\$ 105,139	\$ 143,075	\$ 138,473	\$ 156,489	\$ 139,000	\$ 139,884	\$ 884	0.6%
Red Dragon Casino	118,903	127,186	131,655	99,676	100,000	102,461	2,461	2.5%
Silver Dollar Casino	90,473	85,671	54,682	-	-	-	-	n/a
Seattle Junior Hockey	39,442	44,419	32,144	23,097	23,000	22,971	(29)	-0.1%
Other Restaurants, Pubs	23,178	15,935	16,091	22,187	17,213	15,704	(1,509)	-8.8%
Total Gambling Business	\$ 377,135	\$ 416,286	\$ 373,045	\$ 301,449	\$ 279,213	\$ 281,020	\$ 1,807	0.6%

State-Shared Revenues

The following graph and table presents a comparison of State-Shared revenues received for first quarter between 2006 and 2010. State-shared revenues totaled \$195,019 through first quarter 2010, which is \$24,990, or 11.4% below the budget estimate (\$220,019). The decrease is attributable again to current economic conditions.



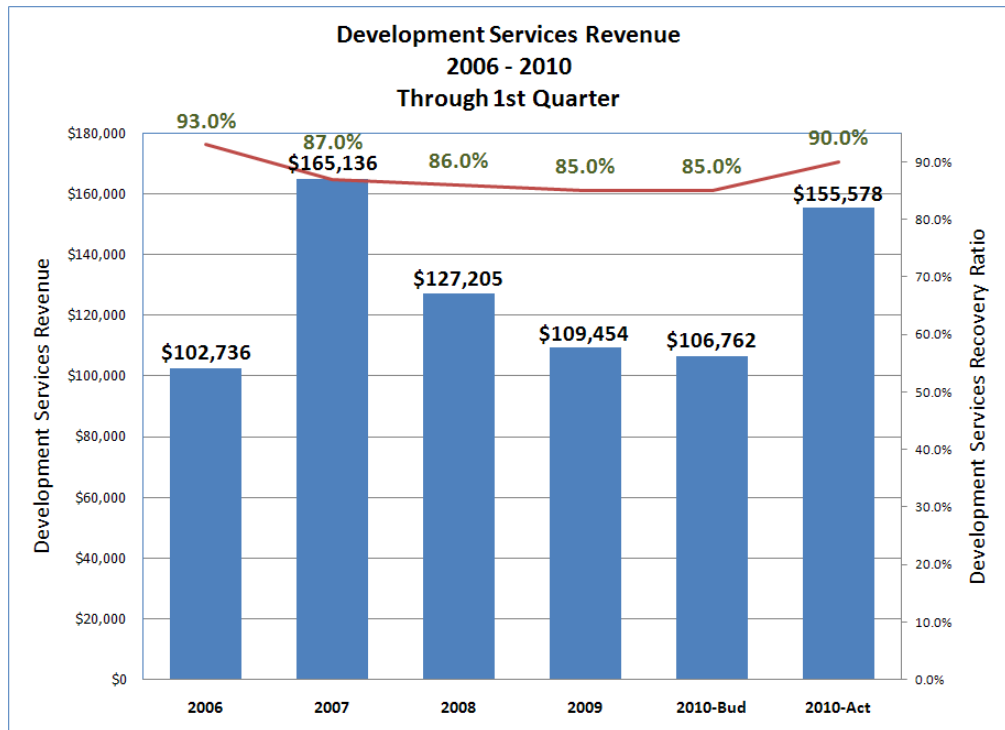
For example, City Assistance funds come from a portion of the State's real estate excise tax. The State's REET collections have been negatively impacted due to the current economic conditions – the result is less City Assistance funds. Similarly, fuel tax dollars that are required by state law to be 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 first quarter 2009 activity (\$178,266) have increased \$16,753, or 9.4%, though they still lag compared to collections through first quarter for 2006 through 2008.

State-Shared Revenues Source	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
General Fund								
Liquor Excise Tax	\$ 20,431	\$ 22,044	\$ 26,209	\$ 34,704	\$ 25,011	\$ 27,448	\$ 2,437	9.7%
Liquor Board Profits	34,589	31,295	35,673	26,898	43,064	48,634	5,571	12.9%
City Assistance	25,926	21,963	23,429	8,872	28,268	8,558	(19,710)	-69.7%
Criminal Justice	4,717	4,809	28,182	5,307	5,255	5,473	219	4.2%
Total General Fund	\$ 85,663	\$ 80,111	\$ 113,493	\$ 75,781	\$ 101,597	\$ 90,113	\$ (11,484)	-11.3%
Street Operating Fund								
Fuel Tax-Street Operating	73,571	78,708	76,558	70,100	80,994	71,756	(9,238)	-11.4%
Total Street Operating Fund	\$ 73,571	\$ 78,708	\$ 76,558	\$ 70,100	\$ 80,994	\$ 71,756	\$ (9,238)	-11.4%
Street Construction Fund								
Fuel Tax-Street Construction	33,989	36,363	35,369	32,385	37,418	33,150	(4,268)	-11.4%
Total Street Construction Fund	\$ 33,989	\$ 36,363	\$ 35,369	\$ 32,385	\$ 37,418	\$ 33,150	\$ (4,268)	-11.4%
Total State-Shared Revenue	\$ 193,223	\$ 195,182	\$ 225,420	\$ 178,266	\$ 220,009	\$ 195,019	\$ (24,990)	-11.4%

Development Services Fees

The following graph and table illustrate development services activity to include building permits, engineering, and plan check/zoning fee activity for first 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 in first quarter 2010 totaled \$155,578, which is \$48,816 or 45.7% above the budget estimate (\$106,762). Compared with 2009 activity (\$109,454), development services fee revenue has increased \$46,124 or 42.1%.

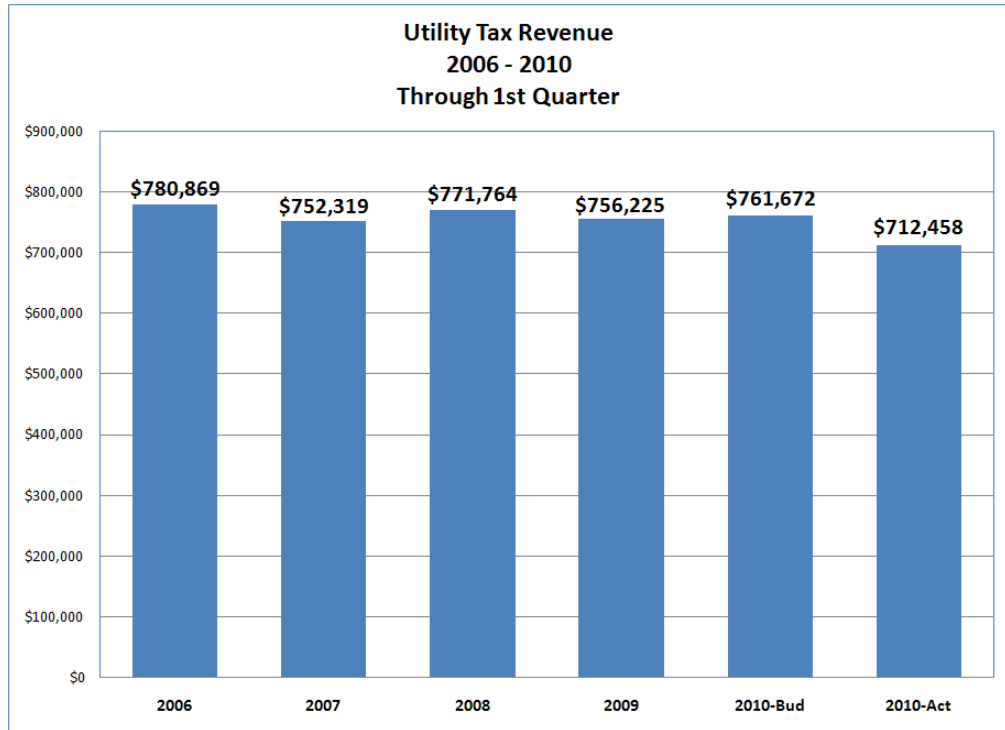
Development Services Source	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
Building Permits	\$ 44,504	\$ 53,587	\$ 43,101	\$ 47,851	\$ 42,000	\$ 64,634	\$ 22,634	53.9%
Engineering Fees	26,840	58,465	25,264	10,685	21,000	53,255	32,255	153.6%
Plan Check/Zoning Fees	31,392	53,084	58,840	50,918	43,762	37,689	(6,073)	-13.9%
Total Development Services	\$ 102,736	\$ 165,136	\$ 127,205	\$ 109,454	\$ 106,762	\$ 155,578	\$ 48,816	45.7%

In addition, our development services program is realizing expenditure savings. The Community and Economic Development Department's operating expenditures are \$58,698 or 18.8% below the estimated budget. This is further reflected by a recovery ratio of 90%.

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 for first quarter 2006 through 2010. Through first quarter 2010, utility tax collections totaled \$712,458, which is \$49,214, or 6.5% below the budget estimate (\$761,672). Compared to 2009 first



quarter activity (\$756,225), utility tax collections have decreased \$43,767 or 5.8%, due primarily to a slow-down in telephone utility tax collections as well as possibly a milder winter 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	\$ 102,301	\$ 121,537	\$ 110,875	\$ 132,775	\$ 80,219	\$ 85,872	\$ 5,653	7.0%
Solid Waste	55,471	58,242	57,409	50,181	65,000	49,751	(15,249)	-23.5%
Telephone	215,670	167,151	181,395	160,430	200,000	173,255	(26,745)	-13.4%
Electricity	203,144	220,377	218,777	214,119	181,464	204,650	23,186	12.8%
Cable	94,367	49,315	51,660	49,664	53,304	48,872	(4,432)	-8.3%
City Utilities	109,916	135,697	151,648	149,056	181,686	150,058	(31,628)	-17.4%
Total Utility Tax Revenues	\$ 780,869	\$ 752,319	\$ 771,764	\$ 756,225	\$ 761,672	\$ 712,458	\$ (49,214)	-6.5%

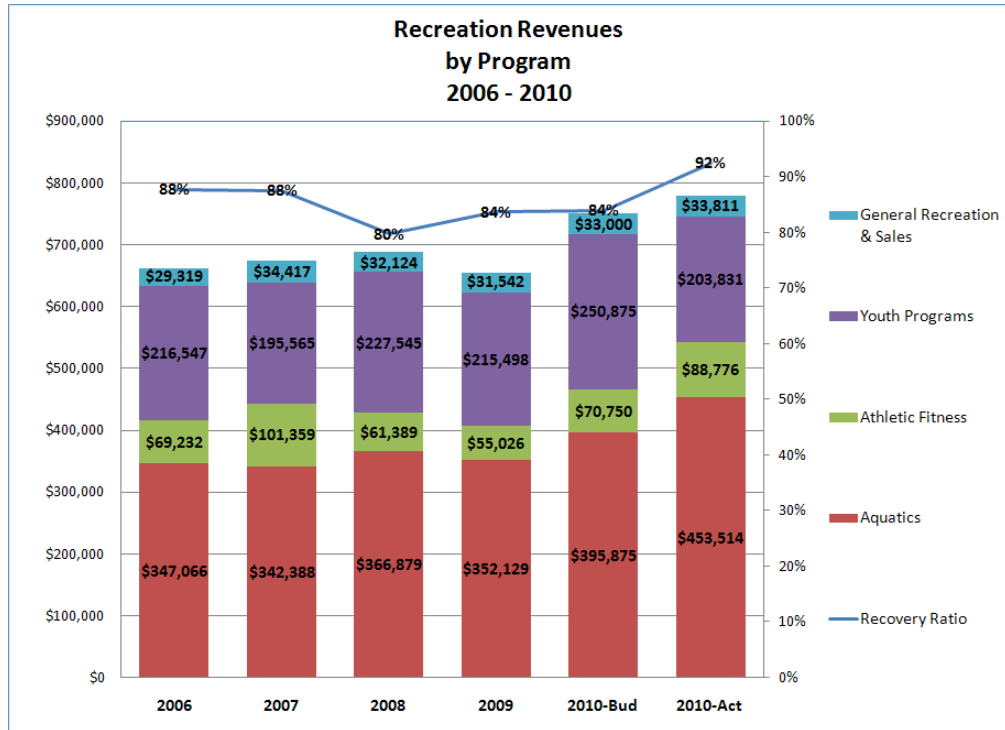
Recreation Program

The following graph and table summarize recreation activity for first quarter 2006 through 2010.

Through first quarter 2010, recreation fee collections totaled \$779,932, which is \$29,432, or 3.9% above the budget estimate (\$750,500).

Compared to first quarter 2009 activity (\$654,195), recreation fee collections have increased by \$125,737, or 19.2%. 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.

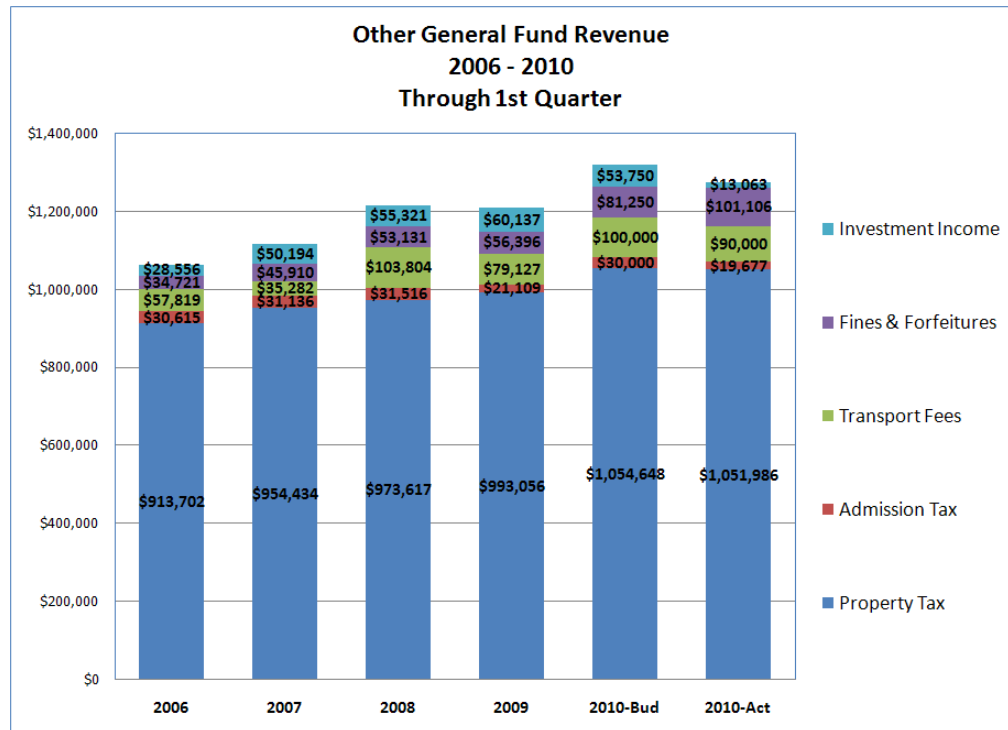
In addition, recreation program costs (\$843,207) are under the budget estimate (\$893,291) by \$50,084 or 5.6%, reflecting the financial prudence being practiced by the Recreation Department. The result of this is that the recreation program's cost recovery ratio is 92% considerably larger than any previous quarter in recent history.



Recreation Program Source & Uses	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
Recreation Fees								
Aquatics	\$ 347,066	\$ 342,388	\$ 366,879	\$ 352,129	\$ 395,875	\$ 453,514	\$ 57,639	14.6%
Athletic Fitness	69,232	101,359	61,389	55,026	70,750	88,776	18,026	25.5%
Youth Programs	216,547	195,565	227,545	215,498	250,875	203,831	(47,044)	-18.8%
General Recreation & Sales	29,319	34,417	32,124	31,542	33,000	33,811	811	2.5%
Program Fees	\$ 662,164	\$ 673,729	\$ 687,937	\$ 654,195	\$ 750,500	\$ 779,932	\$ 29,432	3.9%
Recreation Program								
Aquatics	\$ 372,151	\$ 405,216	\$ 439,614	\$ 350,914	\$ 403,650	\$ 395,078	\$ (8,572)	-2.1%
Athletic Fitness	74,443	58,086	79,174	55,397	91,421	70,965	(20,456)	-22.4%
Youth Programs	256,074	253,608	292,213	323,478	346,972	325,311	(21,661)	-6.2%
General Recreation	5,665	5,721	5,038	5,444	4,998	5,603	605	12.1%
Debt Service	46,250	46,250	46,250	46,250	46,250	46,250	-	0.0%
Program Costs	\$ 754,583	\$ 768,881	\$ 862,289	\$ 781,483	\$ 893,291	\$ 843,207	\$ (50,084)	-5.6%
General Fund Subsidy	\$ (92,419)	\$ (95,152)	\$ (174,352)	\$ (127,288)	\$ (142,791)	\$ (63,275)	\$ 79,516	-55.7%
Cost Recovery Ratio	88%	88%	80%	84%	84%	92%	8.5%	10.1%

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 \$58,930 as compared to 2009 reflecting the levy approved by voters in November 2009 in support of EMS services.



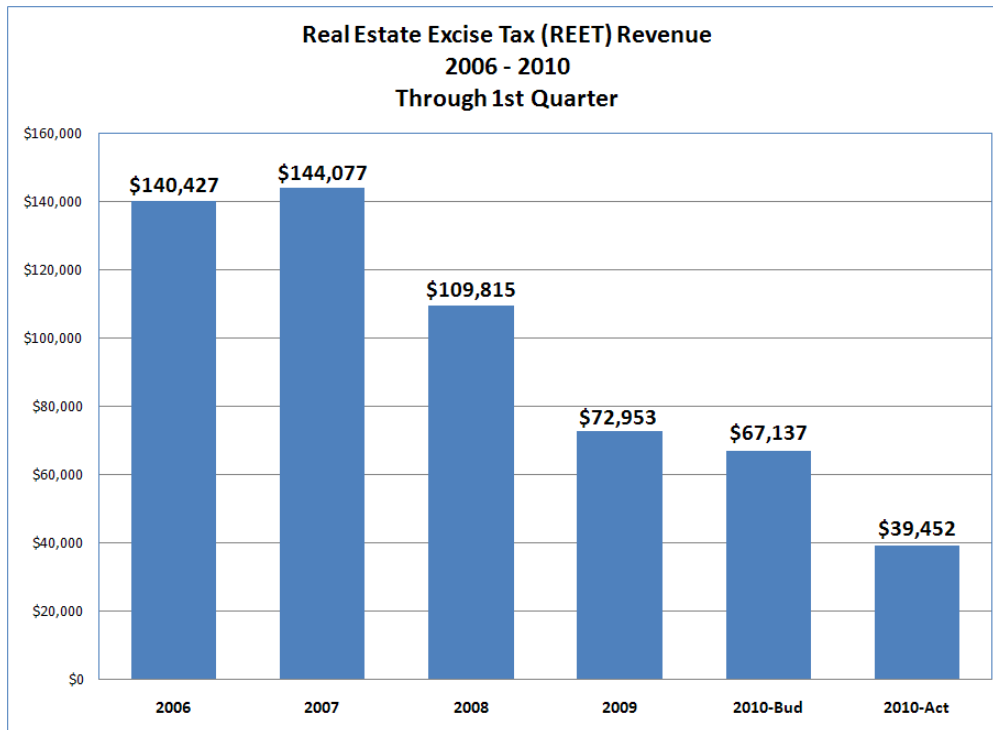
- Admission taxes total \$19,677 through first quarter 2010, which is \$10,323 or 34.4% below the adopted budget (\$30,000) and represents activity at Cinebarrre, which replaced the Regal Mountlake 9 Theatre in mid-2009. Reports reveal that their unique and different approach to taking in a movie has 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.
- Transport fees, which represent financial reimbursement from Medicaid, Medicare, and private insurance policies for the cost of providing medically necessary ambulance transportation was below budgetary estimates (\$100,000) by \$10,000 or 10.0%.
- Fines and forfeitures revenues, which are comprised primarily of traffic infractions and criminal citations, are above budgetary estimates (\$81,250) by \$19,856 or 24.4%.
- General Fund investment revenues total \$13,063, which is \$40,687 or 75.7% below the budget estimate (\$53,750). However, all other major funds (capital and utility) are meeting or exceeding budgetary estimates for this revenue source. 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	1st Qtr	Actual		
Capital Improvement Funds	2006	2007	2008	2009	2010	2010	2010		
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	67,137	39,453	(27,684)	-41.2%
Motor Vehicle Fuel Tax	150,104	156,166	149,373	143,861	149,672	34,425	33,150	(1,275)	-3.7%
Cable PEG Fees	16,796	16,988	16,916	21,485	17,000	4,250	4,310	60	1.4%
Transportation Impact Fees	-	-	2,334	1,081	266,400	6,678	6,678	-	n/a
Park Impact Fees	-	-	4,224	2,026	170,000	24,315	24,315	-	n/a
Investment Interest/Other	165,996	282,880	257,504	150,613	120,500	30,125	35,824	5,699	18.9%
Subtotal Operating Revenue	1,299,507	1,149,135	916,715	611,718	1,073,572	166,930	143,730	(23,200)	-13.9%
Other Financing Sources									
Transfer In: General Fund	741,756	2,126,000	356,000	500,000	655,000	163,750	163,750	-	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	23,789	-	(23,789)	-100.0%
Transfer In: Strategic Reserve Fund	-	-	-	300,000	10,000	2,500	2,500	-	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	5,565	5,565	-	n/a
Subtotal Other Financing Sources	1,726,142	4,873,855	702,853	2,289,307	2,945,794	195,604	171,815	(23,789)	-12.2%
Total Capital Improvement Funds	\$ 6,600,819	\$10,620,305	\$ 8,361,147	\$ 8,524,161	\$ 8,676,784	\$ 5,019,951	\$ 4,972,962	(46,989)	-0.9%
Capital Program									
Overlay Program	\$ 881,419	\$ 483,158	\$ 474,248	\$ 999,768	\$ 873,492	\$ 19,817	\$ 19,817	-	0.0%
Chip & Slurry Seal Program	211,091	155,610	236,245	191,901	293,200	-	-	-	n/a
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	-	-	-	n/a
Sidewalk Program	48,175	294,480	55,067	55,611	973,272	7,063	7,063	-	n/a
Transportation Plan	-	75,057	-	-	-	-	-	-	n/a
Traffic & Signal Control Program	182,470	-	26,072	140,367	786,940	-	-	-	#DIV/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	3,464	3,464	-	0.0%
Engineering Services	87,000	184,455	238,244	341,589	185,945	74,328	74,328	-	0.0%
Capital-Artwork	-	-	7,500	17,500	-	-	-	-	#DIV/0!
Capital-Information Technology	65,856	144,111	166,196	174,445	158,517	15,434	15,434	-	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	2,106	2,106	-	0.0%
Capital-Interim City Hall	-	-	-	399,982	578,645	271,618	271,618	-	0.0%
Capital-Parks	-	114,128	280,419	61,757	143,818	-	-	-	#DIV/0!
Capital-Recreation	29,182	13,719	24,870	21,818	22,200	351	351	-	0.0%
Capital-Police	81,226	-	71,206	60,666	84,824	53,012	53,012	-	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	447,193	447,193	-	0.0%
Transfer Out (Debt Service & CIP)	352,336	1,917,839	370,250	922,478	352,000	88,000	64,211	(23,789)	-27.0%
Total Capital Improvement Funds	\$ 2,003,504	\$ 3,878,726	\$ 2,738,010	\$ 3,866,743	\$ 7,504,595	\$ 535,193	\$ 511,404	(23,789)	-4.4%
Fund Balances									
Designated/Reserved:									
P.E.G. (Cable Fees)	\$ 32,309	\$ 37,476	\$ 47,886	\$ 63,926	\$ 70,926	\$ 68,176	\$ 73,973	5,797	8.5%
Transportation Impact Fees	-	-	2,334	2,334	269,815	10,093	10,093	-	0.0%
Park Impact Fees	56,213	56,213	10,110	6,250	340,000	30,565	30,565	-	0.0%
Capital Improvements	4,508,793	6,647,890	5,562,807	4,584,908	491,448	4,375,924	4,346,927	(28,997)	-0.7%
Total Ending Fund Balances	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 4,657,418	\$ 1,172,189	\$ 4,484,758	\$ 4,461,558	\$ (23,200)	-0.5%

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. During first quarter 2010, REET revenues (\$39,452) were under budgetary

estimates (\$67,137) by \$27,685 or 41.2%. Compared with first quarter 2009 activity (\$72,953), REET revenues have decreased \$33,501 or 45.9%. 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			
May	67,692	88,856	128,309	16,282	40,739			
June	213,025	112,523	43,814	21,106	39,454			
July	135,618	72,816	33,147	47,594	43,480			
August	63,927	56,712	28,679	29,321	29,820			
September	72,803	41,230	47,809	24,096	29,998			
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	\$ 39,452	\$ (27,685)	-41.2%

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 \$4.1 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 - Phase II Stormwater Pass-Through Grant Program in support of NPDES II training, community education, and replacement of street sweeper

Town Center

- \$135,000 - Energy Efficiency and Conservation Block Grant (EECBG)
- \$75,000 - Energy Efficiency through Transportation Planning Grant

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

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:

Stormwater Program

- \$300,000 -- FEMA 2011 Mitigation Grant Program in support of Hall Creek Culvert Removal and Sewer Replacement Project
- \$1,200,000 -- 2010 Water Resources Development Act (WRDA) funds in support of future improvements in the Lake Ballinger/McAlier Creek Watershed Basin as outlined in the recently adopted Strategic Action Plan. This funding source is a multi-jurisdictional request from the agencies (cities of Edmonds, Lake Forest Park, Lynnwood, Mountlake Terrace & Shoreline and Snohomish County) currently partnering in the Lake Ballinger/McAlier Creek Watershed Basin Forum.

Storm Water Detention & Water Quality Improvements in support of Civic Campus and Lake Ballinger/McAleeer Creek Watershed Basin

- \$500,000 -- federal funding to construct a new storm water detention facility that will address water quality in the Lake Ballinger/McAleeer Creek watershed basin and spur economic development in our downtown core

Lakeview Trail

- \$1,000,000 -- federal funding connecting Mountlake Terrace Transit Center at I-5/236th St West to Interurban Trail along Lakeview Drive

Emergency Response Interoperability

- \$500,000 -- federal funding to replace and upgrade our integrated regional 9-1-1 system along with a series of modern law enforcement tools needed to meet public safety obligations in our community.

Pedestrian/School Safety Sidewalk Project

- \$750,000 -- federal funding for sidewalks along 214th St SW between 40th and 44th connecting to Mountlake Terrace High School and 54th Avenue between 220th and 223rd connecting to Mountlake Terrace Elementary School

Lastly, the City currently is pursuing and evaluating the following state and federal grant programs:

- Sustainable Communities (Regional) Grant via HUD in partnership with Sound Transit and Puget Sound Regional Council (PSRC) -- up to \$5 million in support of multi-jurisdictional regional planning efforts that integrate housing, transportation (e.g., regional light rail), and economic development decision-making.
- Community Challenge Planning Grant via HUD in partnership with Sound Transit to support future transportation investment (e.g., regional light rail) designed to create sustainable, walkable, mixed use, transit-oriented, and affordable communities.
- TIGER II Grant via USDOT to support future transportation investment with grant award totaling \$10 million (e.g., 56th Avenue W, between 230th and 236th Avenues W).
- Transportation Enhancements Program via PSRC in support of Lakeview Trail project – up to \$11 million available regionally.
- Transportation Improvement Board (TIB) via WSDOT -- \$40 million available statewide in support of street and sidewalk projects -- Engineering is currently evaluating projects to submit.

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. 52nd/53rd Avenues Water Main Construction: This project, which was recently completed, included the installation of approximately a mile and a half of water main that was constructed in 52nd and 53rd Avenues W. The improvements were installed in 52nd Avenue between 212th and 226th. South of 226th the route crossed Terrace Creek Park, past the Recreation Pavilion and along 53rd Avenue to 230th Street. The south end of the project was at 52nd and 230th.
2. 52nd Avenue W Reconstruction Project (212th to 220th): This project included repaving nearly one-half mile of 52nd Avenue West, from 212th to 220th. The project scope included constructing new sidewalk ramps, replacing deteriorated curb and sidewalk, making storm and sewer repairs, installing new traffic signs, and restriping the street. Construction is complete.
3. 2009 Chip Seal Program: Residential streets totaling 2.5 miles in two areas were chip sealed in this year's pavement preservation program. One area is bounded by 222nd, 228th, 44th and 48th. The other area was east of Cedar Way and south of 228th adjacent to Cedar Plaza. Construction is complete.
4. 2009 Overlay Program: This joint jurisdiction project with the City of Shoreline provided the repaving of 244th Street from 56th to Ballinger Way. The work included storm system repairs and new sidewalk ramps. Between 56th and 59th the street was reconfigured to three lanes, with two thru lanes, a two way left turn lane, and bike lanes. Construction is complete.
5. 223rd & 42nd Sidewalk: This project provided a new sidewalk on the south side of 223rd Street SW and on west side of 42nd Place W between the traffic signal at 44th Avenue W and the walkway to Cedar Way Elementary School. It also eliminated a gap in the sidewalk network and created a continuous pedestrian access throughout the neighborhood. Construction is complete.

Projects underway...

6. 230th Street SW Reconstruction Project: The reconstruction of this roadway will include 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 will be replaced under the roadway in accordance with the city's comprehensive water system plan. Construction is underway and is scheduled to be complete in early September.
7. 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 this summer.

8. 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 summer 2010.
9. 222nd Street Sidewalk Connection at Jack Long Park: Sealed bids for this project were opened Tuesday May 18. The project provides curbs and sidewalks along the north side of 222nd Street SW which will complete a missing link in the sidewalk network connecting 58th and 60th Avenues W. Sidewalk ramps and drainage improvements will be constructed at the intersection of 222nd and 60th. Where the new sidewalk passes the frontage of Jack Long Park, a stairway will be constructed up a steep grassy slope to the park's south entrance. Nine bidders submitted bids ranging from \$120,366 to \$162,345. The low bid was about 40% below the engineer's estimate of \$200,433. A Community Development Block Grant (CDBG) will fund about 80% of the construction contract cost. City Council consideration of a recommendation to award the contract is scheduled for its June 7, 2010 meeting. Construction is anticipated to begin in mid July.
10. 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 summer and fall. A street overlay will follow in 2011.
11. 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 summer.
12. Hall Creek Culvert Removal and Sewer Replacement Project: Herrera Environmental Consultants has been selected to conduct the Engineering, Design and Permitting of the Hall Creek Culvert Removal and Sewer Replacement Project (Council approved at their May 17, 2010 meeting). 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.

13. 2010 Street Chip Seal Program: The streets to be 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. In total, almost four centerline miles of city streets will receive this pavement preservation treatment. The area of 236th Avenue between 54th and Cedar Way, a key east-west route may also be included if project bids are favorable. Construction is scheduled for summer.

14. 2010 Street Overlay Program: 212th between 44th and 52nd will be repaved as a joint project with the City of Lynnwood. Besides an asphalt overlay, the work includes new sidewalk ramps and new pavement markings. Construction is scheduled for summer.

15. 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 exceeding budgetary estimates by \$300 or 0.1% through first quarter 2010, while operating expenditures are under budgetary estimates by \$7,779 or 2.9% due primarily to lower than anticipated maintenance costs.
- **Water:** Water operating revenues exceeded budgetary estimates by \$20,746 or 3.5% through first quarter 2010 while operating expenditures are below budgetary estimates by \$79,602 or 12.7% due primarily to lower than anticipated maintenance costs.
- **Sewer:** Sewer operating revenues exceeded budgetary estimates by \$33,158 or 4.7% through first quarter 2010, while operating expenditures are under budgetary estimates by \$13,491 or 2.1% due primarily to lower than anticipated maintenance costs.

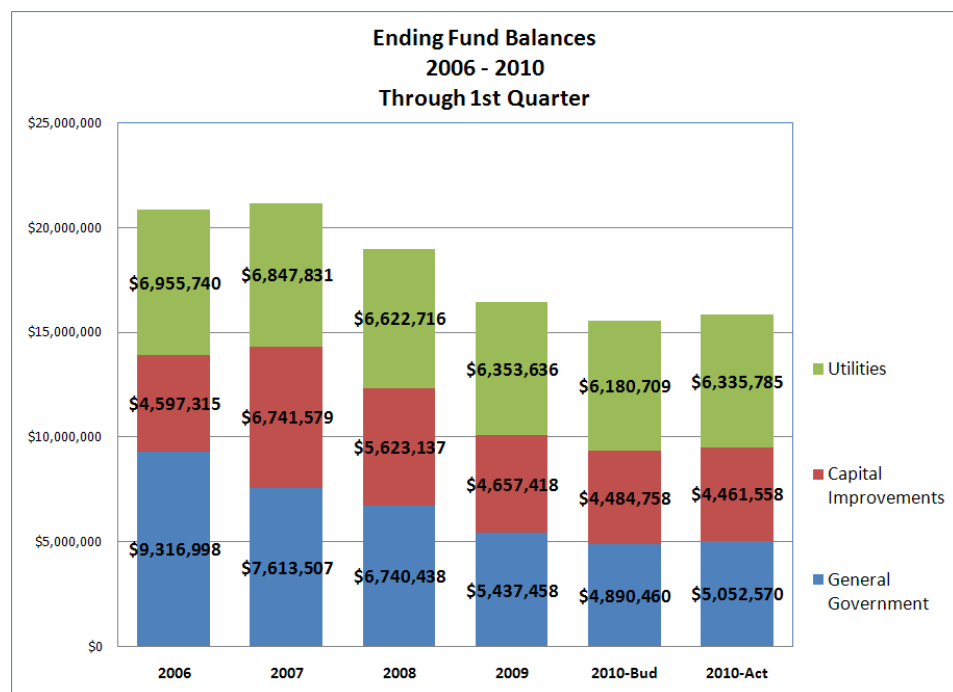
Sources & Uses	2006	2007	2008	2009	2010			Change (bud vs. act)	
					Annual	1st Qtr	Actual	\$	%
Utility Funds	2006	2007	2008	2009	Annual	1st Qtr	Actual	\$	%
Beginning Fund Balances	\$7,286,594	\$6,847,767	\$6,936,129	\$6,622,716	\$6,353,636	\$6,353,636	\$6,353,636	\$ -	0.0%
Operating Revenues									
Storm Water	917,421	931,680	1,018,450	1,142,696	1,334,173	280,176	280,476	300	0.1%
Water	2,651,866	2,529,983	2,755,605	2,799,047	2,854,283	599,399	620,145	20,746	3.5%
Sewer	2,889,815	2,812,790	3,056,971	3,028,233	3,343,634	702,163	735,321	33,158	4.7%
Subtotal Operating Revenues	6,459,102	6,274,453	6,831,026	6,969,976	7,532,090	1,581,739	1,635,942	54,203	3.4%
Operating Expenditures									
Storm Water	847,183	906,074	909,589	1,049,582	1,226,479	269,825	262,046	(7,779)	-2.9%
Water	2,327,798	2,309,016	2,273,928	2,446,738	2,845,847	626,086	546,484	(79,602)	-12.7%
Sewer	2,317,565	2,445,042	2,606,838	2,597,915	2,900,585	638,129	624,638	(13,491)	-2.1%
Debt Service	105,010	105,687	88,882	120,860	120,400	-	-	-	n/a
Subtotal Operating Expenditures	5,597,556	5,765,819	5,879,237	6,215,095	7,093,311	1,534,040	1,433,168	(100,872)	-6.6%
Operating Surplus (Deficit)	861,546	508,634	951,789	754,881	438,779	47,698	202,774	155,076	325.1%
Other Financing Sources									
Grants and PWTFL	-	291,200	162,622	476,152	477,000	-	-	-	n/a
Loan Proceeds	-	-	-	-	4,600,000	-	-	-	n/a
Transfer from Utility Funds	1,717,093	3,301,158	4,852,924	120,860	120,400	-	-	-	n/a
Subtotal Other Financing Uses	1,717,093	3,592,358	5,015,546	597,012	5,197,400	-	-	-	n/a
Other Financing Uses									
Construction Projects	1,300,197	904,846	1,516,706	1,620,973	6,209,061	220,625	220,625	-	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	6,209,061	220,625	220,625	-	0.0%
Fund Balances									
Reserves (15% of Oper Exp)	-	-	913,941	964,409	1,045,937	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	1,009,814	1,017,893	8,079	0.8%
Water	2,951,524	3,260,139	2,576,703	2,350,158	2,606,264	2,200,485	2,300,833	100,348	4.6%
Sewer	2,148,133	2,073,392	2,033,658	1,986,654	1,187,484	1,924,473	1,971,122	46,649	2.4%
Debt Service	151,457	-	-	-	-	-	-	-	n/a
Undesignated/Unreserved	-	-	-	-	-	-	-	-	n/a
Total Ending Fund Balances	\$6,955,740	\$6,847,831	\$6,622,716	\$6,353,636	\$5,780,754	\$6,180,709	\$6,335,785	\$ 155,076	2.5%

Ending Fund Balances/Reserves

The following graph and table illustrates the City's ending fund balances between 2006 and first 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	724,068	724,068	-	0.0%
Reserved/Designated								
Encumbrances	402,437	179,672	185,553	532,789	702,215	702,215	-	0.0%
Equipment Replacement & Reserve	2,294,889	2,307,593	2,345,407	1,584,367	1,405,578	1,482,620	77,042	5.5%
Hotel/Motel-Tourism	35,922	32,907	34,979	30,178	31,521	31,521	-	0.0%
Solid Waste-Billing Exemptions	58,359	61,628	40,531	27,686	22,738	22,738	-	0.0%
Accumulated Leave Reserve	761,751	283,723	234,381	241,340	244,340	243,276	(1,064)	-0.4%
Subtotal Reserved/Designated	5,164,633	4,497,659	4,565,685	3,819,287	3,863,503	3,939,481	75,978	2.0%
Contingency (2% of GF Oper Exp)	-	-	-	-	293,217	293,217	-	0.0%
Undesignated/Unreserved (one-time)	4,152,365	3,115,848	2,174,753	1,618,171	733,740	819,872	86,132	11.7%
Total General Government	\$ 9,316,998	\$ 7,613,507	\$ 6,740,438	\$ 5,437,458	\$ 4,890,460	\$ 5,052,570	\$ 162,110	3.3%
<i>Capital Improvement</i>								
Reserved/Designated								
P.E.G. (Cable Fees)	32,309	37,476	47,886	63,926	68,176	73,973	5,797	8.5%
Transportation Impact Fees	-	-	2,334	2,334	10,093	10,093	-	0.0%
Park Impact Fees	56,213	56,213	10,110	6,250	30,565	30,565	-	0.0%
Capital Improvements	4,508,793	6,647,890	5,562,807	4,584,908	4,375,924	4,346,927	(28,997)	-0.7%
Total Capital Improvement	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 4,657,418	\$ 4,484,758	\$ 4,461,558	\$ (23,200)	-0.5%
<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	1,009,814	1,017,893	8,079	0.8%
Water	2,951,524	3,260,139	2,576,703	2,350,158	2,200,485	2,300,833	100,348	4.6%
Sewer	2,148,133	2,073,392	2,033,658	1,986,654	1,924,473	1,971,122	46,649	2.4%
Debt Service	151,457	-	-	-	-	-	-	n/a
Total Utilities	\$ 6,955,740	\$ 6,847,831	\$ 6,622,716	\$ 6,353,636	\$ 6,180,709	\$ 6,335,785	\$ 155,076	2.5%
Total Ending Fund Balances	\$20,870,053	\$21,202,917	\$18,986,291	\$16,448,512	\$15,555,928	\$15,849,913	\$ 293,985	1.9%

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 first quarter 2010.

Reserved/Designated Ending Fund Balances: The first component of ending fund balances, totaling \$3,939,481 at the end of first quarter 2010, are those moneys that have been earmarked for a strategic reserve fund (\$724,068), equipment replacement reserves (\$1,482,620), accumulated leave reserves (\$243,276), and General Fund reserves totaling 5% of operating expenditures (\$733,043). This reserve designation also include encumbrances from prior and current year (\$702,215), funds dedicated solely for tourism purposes (\$31,521), and solid waste billing exemptions (\$22,738).

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 (\$5,289,848). All Capital (\$4,461,558) and Utility Construction Fund balances (\$5,289,848) 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.

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. Unreserved/undesignated fund balances (\$819,872) in the General Fund through first quarter 2010 are above the budget estimate (\$733,740) by \$86,132 or 11.7%. These funds, which are set aside for future one-time capital investments and other one-time projects between 2010 and 2014, are consistent with the City's 6-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, this table illustrates the financial impact of the following action strategies and preventative approaches implemented to mitigate the downturn in our revenue collections for 2009 through 2014 caused by the faltering economy.

City of Mountlake Terrace						
General Fund Financing Balancing Strategy						
2009-2014						
Department	2009	2010	2011	2012	2013	2014
City Council	\$ (1,400)	\$ (1,400)	\$ -	\$ -	\$ -	\$ -
City Manager	(5,000)	(39,000)	(36,743)	(38,028)	(39,359)	(40,737)
Administrative Services	(161,100)	(254,600)	(272,900)	(282,498)	(292,397)	(302,602)
Municipal Court & Jail						
Services	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)
Police	(194,692)	88,958	102,732	106,327	110,049	113,901
Fire	66,918	69,260	82,396	85,280	88,265	91,354
Comm & Econ Dev	(42,500)	(43,900)	(42,849)	(44,349)	(45,901)	(47,507)
Parks	(74,538)	(76,947)	-	-	-	-
Property Mgmt	(25,000)	(92,500)	(93,150)	(96,410)	(99,785)	(103,277)
Streets	(16,500)	(34,000)	(29,565)	(35,173)	(41,109)	(47,392)
Fleet Management	(39,000)	(14,000)	(14,000)	(14,000)	(14,000)	(14,000)
Recreation	(26,000)	(26,000)	-	-	-	-
Subtotal Operating	(543,812)	(449,129)	(329,079)	(343,851)	(359,237)	(375,260)
% of Operating Bdgt	-3.9%	-3.1%	-2.2%	-2.2%	-2.2%	-2.2%
One-time	(110,900)	(51,685)	-	-	-	-
Total	\$ (654,712)	\$ (500,814)	\$ (329,079)	\$ (343,851)	\$ (359,237)	\$ (375,260)

- 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 until at least 2010.
- Non-essential information technology, recreation, and park improvements have also been delayed until at least 2010 and beyond.
- 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 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 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.

- An employee “Healthcare Task Force” is looking at 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’s goal is not to just look at what our own costs are, but to look at outside traditional approaches to employee benefits to find innovative ways to balance meeting employee health care needs and the need to control costs.
- 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 dollars at this time; we may need them in the future if the economy does not improve.

More importantly, 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 have seen 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

- Attachment A -- First Quarter 2010 Financial Report Detail
- Attachment B -- Municipal Court & Jail Services Expenditure Detail