

MEMORANDUM

TO: City Council

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

DATE: August 16, 2010

SUBJECT: **Quarterly Financial Report
Second Quarter -- January through June 2010**

Overview

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

The Summary of Sources and Uses (Attachment A) captures financial activity by fund through June 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, activity through second quarter 2010 was another successful quarter for the City of Mountlake Terrace, both from an operational perspective and financial one, which reflects sound financial and management policies practiced by the City. Overall, most financial projections are tracking consistent with the 2010 budget and the six-year financial forecast.

Mountlake Terrace Receives High Credit Rating

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

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

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

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

Annual Audit

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

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.

Executive Summary

By the end of this year, the City of Mountlake Terrace will have endured 36 months (December 2007-December 2010) of the most difficult financial times in generations. Nationally and regionally, sizeable budget shortfalls are expected to grow much more severe and widespread in 2011, 2012 and beyond. In response to continuing declining economic conditions and the prospect of budget shortfalls, cities are laying off staff by the thousands, reducing and eliminating key municipal services, delaying or canceling infrastructure projects, and making cuts to public safety services.

The not so good news is that the future for local governments is expected to worsen. The continued economic recession, which does not seem to have an end in sight, will only continue to create challenges on how we provide key municipal services while operating revenues continue to decline.

We are now operating in an environment completely different from just a year ago. An economic recovery is not expected to occur anytime in the near future and when it does, it may take 5-10 years for the economy to return to its vibrant form of the mid-2000's. For this reason, the worse effects of the recession upon local governments may be just beginning.

In our organization, we have taken a leadership stance to embrace and acknowledge that where there is a crisis, there are opportunities. We have cultivated a new culture of strategic leadership that no longer subscribes to the old saying, 'That's the way we always did it.' Rather we've become more efficient in our spending practices, delivering efficiency savings on a regular basis to combat the continued uncertainty.

We have maintained fiscal discipline while maintaining services during the most turbulent times in recent history. 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. While many communities are just now *reacting* to this economy, our City has been *proactive* over the past few years.

For example, the City continues to proactively pursue state and federal funding to upgrade our aging infrastructure with new construction, which in turn reduces what residents have to pay locally. As a result, the City has leveraged almost \$4.8 million in outside federal and state funding for capital improvements. The City also continues to focus on a wide range of private, public and transit economic development initiatives that all serve as catalysts for the revitalization of our community, particularly in the Town Center. This level of development activity in our city, even in an economic downturn as severe as this one, reflects very positively upon our community.

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

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

This downward trend continues in 2010 and is projected to continue into 2011 and beyond. Even though we continue to meet our operational objectives and our financial objectives through June 2010, our general fund operating revenues are under budget by \$297,799 or 4.0%. On the other hand, operating expenditures savings are under budget by \$442,609 or 6.0% more than offsetting the slower than anticipated revenue collections.

However, this is not sustainable. It is imperative that we continue with our proactive approach on controlling costs since revenue collections are not expected to 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.

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

Initiatives

The proponents of six initiatives submitted signatures to the Washington State Secretary of State by the July 2, 2010 deadline. To make it onto the November 2 ballot, 241,153 signatures have to be certified as valid. Initiatives 1053, 1082, 1098, 1100, 1105, and 1107 have been certified. All these initiatives have something to do with “dollars and cents,” but some have a more direct impact on city and county budgets than others.

I-1053 -- concerns tax and fee increases imposed by state government. This measure would restate existing statutory requirements that legislative actions raising taxes must be approved by two-thirds legislative majorities or receive voter approval, and that new or increased fees require majority legislative approval.

Ballot Measure Summary: This measure would restate the existing statutory requirement that any action or combination of actions by the legislature that raises taxes must be approved by a two-thirds vote in both houses of the legislature or approved in a referendum to the people, and it would restate the existing statutory definition of “raises taxes.” It would also restate that new or increased fees must be approved by a majority vote in both houses of the legislature.

The Washington State Legislature passed a bill (ESSB 6130, Chapter 4, Laws of 2010) during the 2010 legislative session that directed that certain parts of previously-passed Initiative 960 be suspended until July 1, 2011. For example, one such suspended provision requires that any tax increase has to be approved by a two-thirds vote of each house of the legislature. If Initiative 1053 is found to have enough signatures to get on the ballot and gets enough votes, this provision would no longer be suspended as of the effective date that the vote is certified – 30 days after the election.

Passage of this initiative, which is sponsored by Tim Eyman, would make it more difficult for the legislature to pass legislation during the 2011 legislation session that could be helpful to local government (e.g., backfill funding to mitigate loss of liquor profits and liquor excise taxes if I-1100 and I-1105 are approved by voters).

I-1082 -- concerns industrial insurance. This measure would authorize employers to purchase private industrial insurance beginning July 1, 2012; direct the legislature to enact conforming legislation by March 1, 2012; and eliminate the worker-paid share of medical-benefit premiums.

Ballot Measure Summary: This measure would permit certification of private insurers as industrial insurance insurers, and authorize employers to purchase state-mandated industrial insurance coverage through an “industrial insurance insurer” beginning July 1, 2012. It would establish a joint legislative task force to propose legislation conforming current statutes to this measure’s provisions, and would direct the legislature to enact such supplemental conforming legislation as necessary by March 1, 2012. It would also eliminate the worker-paid share of medical-benefit premiums.

This measure would allow private insurers to compete with the state Department of Labor & Industries (L&I) to offer employers workers’ compensation coverage, effective July 1, 2012. The measure would also eliminate the worker-paid share of medical-benefit premiums, shifting those costs to the employer. Washington is one of just four states that do not allow private companies to offer workers' compensation insurance, although employers may self-insure under guidance from L & I.

Proponents of I-1082, critical of L & I's management of the system, say the added competition would bring about efficiencies and lower workers' compensation premium costs. Opponents, led by organized labor and the trial lawyers' association, argue that introducing the profit motive to the system would actually drive costs up and result in less protection for injured workers. (Backed by Building Industry Association of Washington and supported by business and insurance interests)

I-1098 -- concerns establishing a state income tax and reducing other taxes. This measure would tax "adjusted gross income" above \$200,000 (individuals) and \$400,000 (joint-filers), reduce state property tax levies, reduce certain business and occupation taxes, and direct any increased revenues to education and health.

Ballot Measure Summary: This measure would establish a tax on "adjusted gross income" (as determined under the federal internal revenue code) above \$200,000 for individuals and \$400,000 for married couples or domestic partners filing jointly; reduce the limit on statewide property taxes by 20%; and increase the business and occupation tax credit to \$4,800. The tax revenues would replace revenues lost from the reduced levy and increased credit; remaining revenues would be directed to education and health services.

For married couples filing jointly, this initiative would impose a five (5) percent tax on their adjusted gross income (federal income tax definition) over \$400,000 and a nine (9) percent tax on income over \$1 million. For single persons, or married persons not filing joint returns, the tax rate would be five (5) percent on their adjusted gross income over \$200,000 and nine (9) percent on their income over \$500,000. Some of the receipts from this new tax would be used to fund a 20 percent reduction in the state property tax levy (estimated to total \$102 for the average Mountlake Terrace home) and to increase the business and occupation (B&O) tax credit from \$420 to \$4,800 to reduce taxes for small business owners.

Proponents of this income tax estimate that it would raise \$1 billion after making up for the lost income from the reduction in the state property tax and the B&O tax credit. The money would be put in a trust fund for education and health. (Backed by William H. Gates, Sr. and the Service Employees International Union.)

I-1100 -- concerns liquor (beer, wine and spirits). This measure would close state liquor stores; authorize sale, distribution, and importation of spirits by private parties; and repeal certain requirements that govern the business operations of beer and wine distributors and producers.

Ballot Measure Summary: This measure would direct the liquor control board to close all state liquor stores; terminate contracts with private stores selling liquor; and authorize the state to issue licenses that allow spirits (hard liquor) to be sold, distributed, and imported by private parties. It would repeal uniform pricing and certain other requirements governing business operations for distributors and producers of beer and wine. Stores that held contracts to sell spirits could convert to liquor retailer licenses.

I-1100 would eliminate some city and county liquor revenues and would decrease state general fund revenues; and they could have a negative impact on public safety expenditures. The impact to the City of Mountlake Terrace would be the loss of liquor profits taxes totaling approximately \$175,000 beginning in late 2011/early 2012, which would result in a reduction of services and employees in public safety, parks and administrative services.

I-1105 -- concerns liquor (beer, wine and spirits). This measure would close all state liquor stores and license private parties to sell or distribute spirits. It would revise laws concerning regulation, taxation and government revenues from distribution and sale of spirits.

Ballot Measure Summary: This measure would close all state liquor stores and license private parties to sell or distribute spirits. It would revise laws concerning regulation, taxation and government revenues from distribution and sale of spirits.

I-1105 would eliminate some city and county liquor revenues and would decrease state general fund revenues; and they could have a negative impact on public safety expenditures. The impact to the City of Mountlake Terrace would be the loss of liquor profits taxes and liquor excise taxes totaling approximately \$275,000 beginning in late 2011/early 2012, which would result in a reduction of services and employees in public safety, parks and administrative services.

I-1107 -- concerns reversing certain 2010 amendments to state tax laws. This measure would end sales tax on candy; end temporary sales tax on some bottled water; end temporary excise taxes on carbonated beverages; and reduce tax rates for certain food processors.

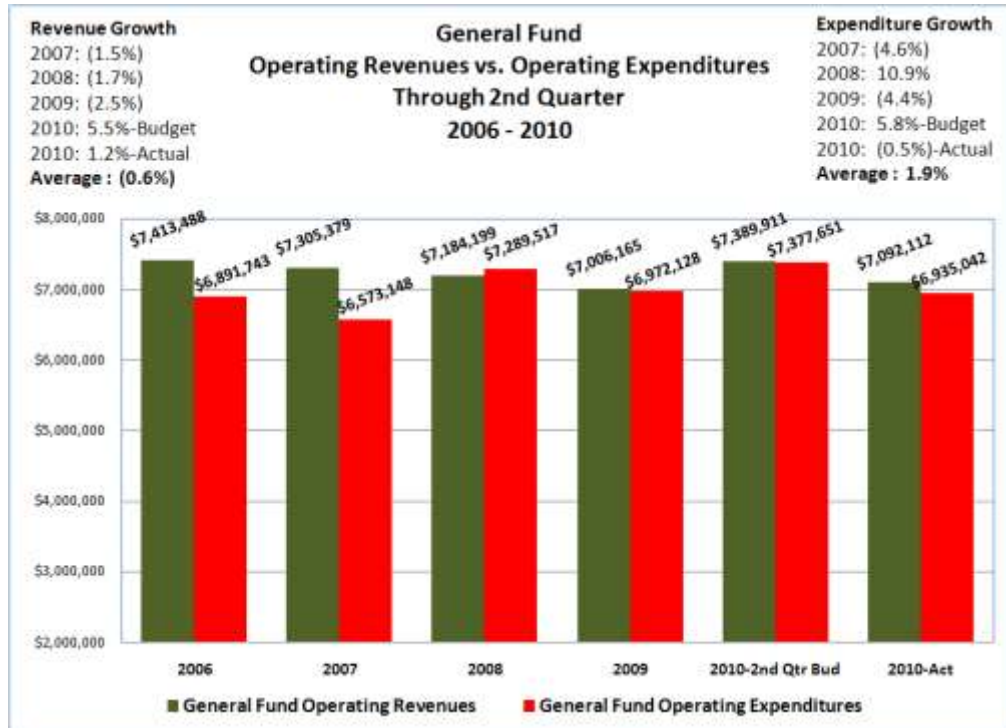
Ballot Measure Summary: This initiative would repeal a number of measures included in ESSB 6143, ending the sales tax on candy and the temporary sales tax on some bottled water; and ending temporary excise taxes on the activity of selling certain carbonated beverages, not including alcoholic beverages or carbonated bottled water. It would also reinstate a reduced business and occupation tax rate for processors of certain foods. Under ESSB 6143, local governments are forecast to receive an additional \$23.7 million in 2011 from sales tax on candy, gum, and bottled water. Somewhat higher tax receipts from these same sources are forecast for 2012 and 2013.

If this initiative is certified for the ballot and passes, these items will remain exempt from the sales tax. The state general fund would also lose funding that was used to balance the budget for the 2011-2013 biennium. Passage of this initiative would mean less money for state programs, which could indirectly have a negative effect on cities and counties. The part of the bill that increases city expenditures – the surcharge on the B&O tax – would not be affected. (Backed by the American Beverage Association.)

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.



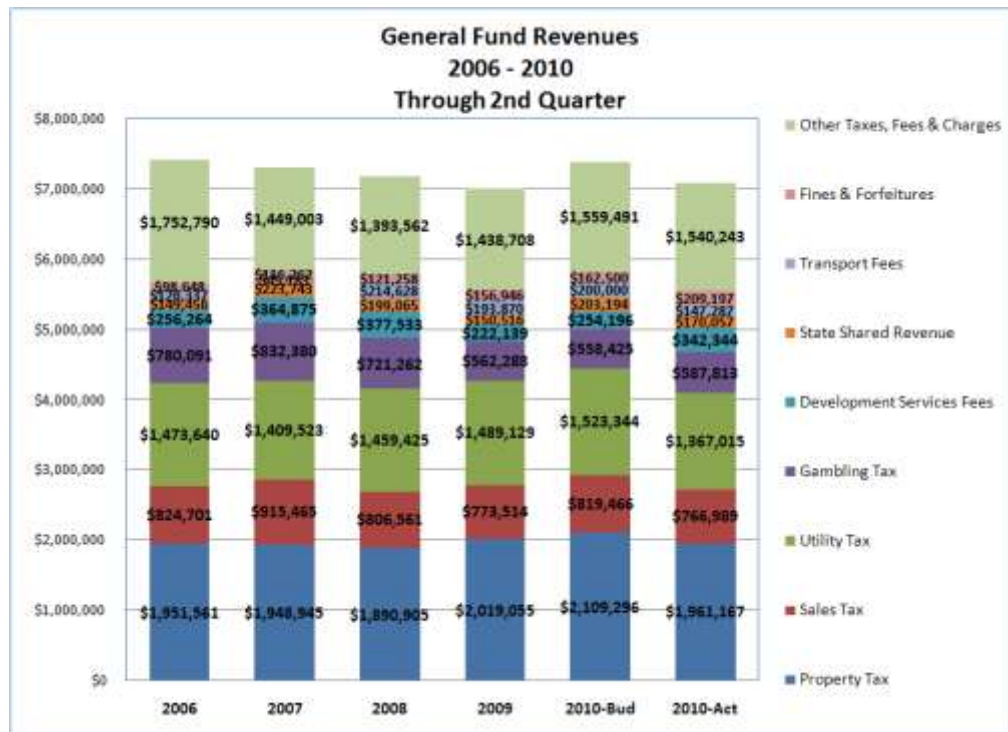
Resources by Fund					2010			Change (bud vs. act)	
	2006	2007	2008	2009	Budget		Actual	\$	%
					Annual	2nd Quarter			
General Government									
Beginning Fund Balances	\$ 9,464,261	\$ 9,329,323	\$ 7,613,507	\$ 6,740,438	\$ 5,437,458	\$ 5,437,458	\$ 5,437,458	\$ -	0.0%
General									
Property Tax	3,722,059	3,722,182	3,787,483	3,859,928	4,218,591	2,109,296	2,103,974	(5,322)	-0.3%
Sales Tax	1,704,801	1,756,581	1,712,184	1,648,902	1,700,000	819,466	766,989	(52,477)	-6.4%
Utility Tax	2,700,443	2,823,206	2,897,238	2,896,446	3,046,687	1,523,344	1,367,015	(156,329)	-10.3%
Gambling Tax	1,681,265	1,609,601	1,338,964	1,036,730	1,116,850	558,425	587,813	29,388	5.3%
Other Taxes	141,588	138,687	138,814	75,458	124,000	62,000	41,722	(20,278)	-32.7%
Business & Animal Licenses	127,184	139,758	151,698	103,870	148,891	74,446	66,625	(7,821)	-10.5%
Development Services Fees	638,875	661,820	515,504	556,047	508,392	254,196	342,344	88,148	34.7%
Cable & Solid Waste Franchise Fees	431,546	466,090	666,366	427,758	497,472	248,736	259,263	10,527	4.2%
State Shared & Intergov't	569,274	521,996	532,413	487,837	694,255	278,039	240,925	(37,114)	-13.3%
Transport Fees	270,067	311,483	377,845	377,134	400,000	200,000	147,287	(52,713)	-26.4%
Fines & Forfeitures	242,439	263,760	295,775	330,563	325,000	162,500	209,197	46,697	28.7%
Other Fees & Charges	2,411,950	1,769,874	1,734,268	1,882,852	1,983,930	991,965	939,485	(52,480)	-5.3%
Investment Income	211,529	307,416	190,364	117,668	215,000	107,500	19,473	(88,027)	-81.9%
Total General Fund Operating Revenues	14,853,020	14,492,454	14,338,916	13,801,193	14,979,068	7,389,911	7,092,112	(297,799)	-4.0%
Street Operating	367,879	379,475	358,187	343,282	348,974	174,487	161,405	(13,082)	-7.5%
Recreation	2,583,003	2,502,136	2,696,972	2,607,733	3,002,000	1,501,000	1,473,241	(27,759)	-1.8%
Debt Service	201,204	192,197	168,371	9,376	3,000	1,500	6,042	4,542	302.8%
Total General Govt Operating Revenues	18,005,106	17,566,262	17,562,446	16,761,584	18,333,042	9,066,898	8,732,800	(334,098)	-3.7%
Other Financing Sources									
Strategic Reserve	35,297	43,246	35,556	25,492	30,000	8,952	8,952	-	0.0%
Fleet Management	769,249	775,957	825,413	727,802	762,605	240,300	240,300	-	0.0%
Hotel/Motel Tax	26,775	21,985	27,072	23,304	22,500	7,944	7,944	-	0.0%
Solid Waste Service	17,500	17,500	-	17,500	17,500	8,750	8,750	-	0.0%
Accumulated Leave Reserve	29,337	21,972	10,226	6,959	12,000	6,000	3,009	(2,991)	-49.9%
General	438,680	209,110	98,938	40,077	20,000	10,000	7,363	(2,637)	-26.4%
Street Operating	542,851	247,918	476,132	427,100	506,083	253,042	190,023	(63,019)	-24.9%
Recreation	604,854	696,617	682,363	622,229	571,164	285,582	160,768	(124,814)	-43.7%
Debt Service	628,825	623,700	637,407	846,613	441,846	220,923	220,923	-	0.0%
Fleet Management	3,911	-	35,948	79,455	86,500	16,591	16,591	-	0.0%
Total Other Financing Sources	3,097,279	2,658,005	2,829,055	2,816,531	2,470,198	1,058,084	864,623	(193,461)	-18.3%
Total All General Government Funds	\$30,566,646	\$29,553,590	\$28,005,008	\$26,318,553	\$26,240,699	\$15,562,440	\$15,034,881	\$ (527,559)	-3.4%

Revenues

Overall, General Fund operating revenues (\$7,092,112) collected through second quarter 2010 is below the budget estimate (\$7,389,911) by \$297,799 or 4.0%.

However, the shortfall is more than offset by operating department expenditures savings.

Compared with 2009 collections (\$7,006,165), operating revenues have increased \$85,947 or 1.2%, due primarily to voter-approved EMS levy from November 2009, increased fines and forfeitures, and increased development services fees.



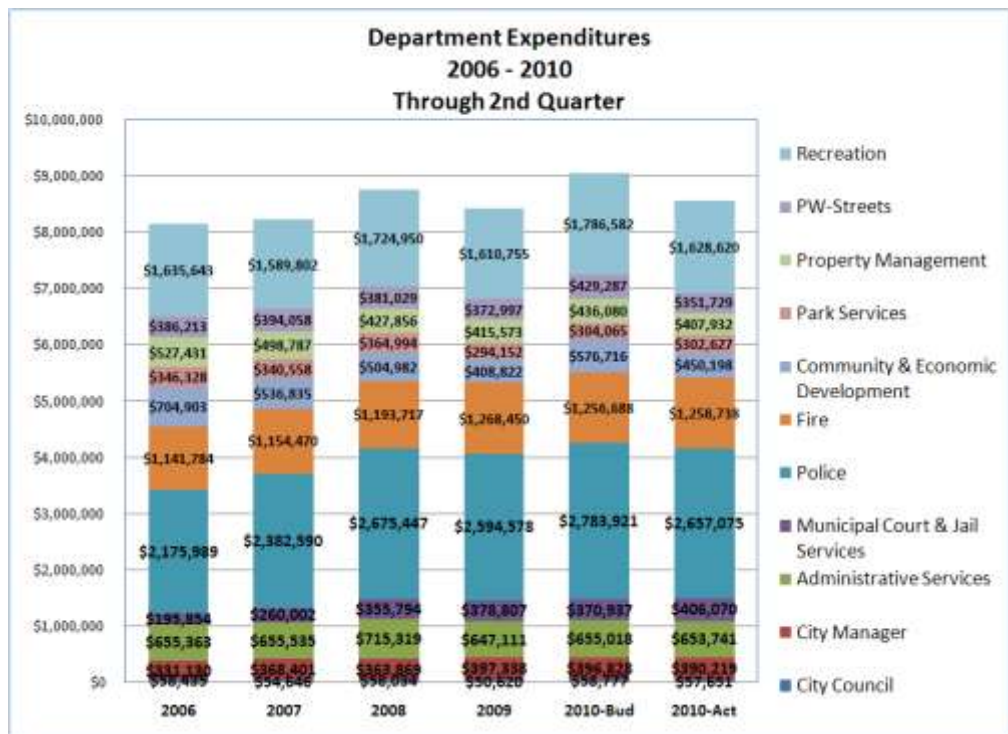
Total general government sources (\$15,034,881) are below the budget estimate (\$15,562,440) by \$527,559 or 3.4%. However, the shortfall is more than offset by expenditures savings. The lower than anticipated collections to the Street Operating Fund and Recreation Fund under other financial sources is reflective of the cost savings being generated by the Public Works Department and Recreation Department, the result which is a lower than projected General Fund transfers to those two funds. The Recreation Pavilion, buoyed by a combination of increased fees and cost savings achieved a cost recovery totaling 90% through second quarter 2010 resulting in a reduced General Fund transfer totaling \$124,814. The Public Works Department achieved cost savings totaling \$63,019.

Expenditures

General Fund operating expenditures (\$6,935,042) through second quarter 2010 are below the budget estimate (\$7,377,651) by \$442,609 or 6.0%, which offsets the lower than anticipated general fund revenue collections. Likewise, total general government expenditures (\$10,000,818) are below the budget estimate (\$10,788,175) by \$787,357 or 7.3%, which also offsets the lower than anticipated general government revenue collections. Compared with 2009 general fund expenditure activity (\$6,972,128), operating expenditures have decreased \$37,086 or 0.5%. These savings are attributable to the financial prudence being practiced by our department directors and their staff and includes the elimination of all discretionary spending such as supplies, travel, training, overtime, equipment, temporary help, and non-essential positions.

Expenditures by Fund	2010							Change (bud vs. act)	
	2006	2007	2008	2009	Budget			\$	%
					Annual	2nd Quarter	Actual		
General Government									
General									
City Council	incl with CM	\$ 96,659	\$ 104,753	\$ 92,979	\$ 103,117	58,777	\$ 57,651	\$ (1,126)	-1.9%
City Manager	707,667	671,925	719,173	696,687	713,656	396,828	390,219	(6,609)	-1.7%
Administrative Services	1,269,046	1,374,134	1,460,074	1,331,808	1,310,036	655,018	653,741	(1,277)	-0.2%
Municipal Court & Jail Services	708,455	673,956	710,570	794,770	741,873	370,937	406,070	35,134	9.5%
Police	4,285,179	4,527,696	5,171,253	4,996,051	5,567,841	2,783,921	2,657,075	(126,846)	-4.6%
Fire	2,156,172	2,224,941	2,289,888	2,411,618	2,513,375	1,256,688	1,258,738	2,051	0.2%
Community & Economic Development	1,437,758	1,034,661	1,038,427	831,051	1,153,432	576,716	450,198	(126,518)	-21.9%
Park Services	772,235	688,783	752,220	630,125	608,130	304,065	302,627	(1,438)	-0.5%
Property Management	1,074,654	910,583	860,196	808,120	872,159	436,080	407,932	(28,148)	-6.5%
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	253,042	190,023	(63,019)	-24.9%
Oper Transfer Out-Recreation	419,854	511,617	497,363	437,229	386,164	193,082	68,268	(124,814)	-64.6%
Oper Transfer Out- Rec Debt Svc	185,000	185,000	185,000	185,000	185,000	92,500	92,500	-	0.0%
Total General Fund	13,895,360	13,444,323	14,575,206	13,642,538	14,660,866	7,377,651	6,935,042	(442,609)	-6.0%
Operating Surplus/(Deficit)	957,660	1,048,131	(236,290)	158,655	318,202	12,260	157,070	144,810	1181.2%
Street Operating	905,215	808,987	825,968	777,237	858,574	429,287	351,729	(77,558)	-18.1%
Recreation	3,208,442	3,202,052	3,333,259	3,255,891	3,573,164	1,786,582	1,628,620	(157,962)	-8.8%
Debt Service	823,478	822,448	805,778	454,965	493,038	119,050	119,050	-	0.0%
Total General Government Funds	18,832,495	18,277,810	19,540,211	18,130,631	19,585,642	9,712,570	9,034,441	(678,129)	-7.0%
Other Financing Uses									
Fleet Management	628,542	763,253	823,547	1,568,298	1,217,451	608,726	499,498	(109,228)	-17.9%
Hotel/Motel Tax	19,302	25,000	25,000	28,105	24,880	23,080	23,080	-	n/a
Solid Waste Service	25,199	14,231	21,097	30,345	30,426	19,629	19,629	-	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	419,170	419,170	-	0.0%
Strategic Reserve	419,407	-	-	300,000	10,000	5,000	5,000	-	0.0%
Other Financing Uses	2,417,153	3,662,273	1,724,359	2,750,464	2,304,490	1,075,605	966,377	(109,228)	-10.2%
Total All General Government Funds	\$21,249,648	\$21,940,083	\$21,264,570	\$20,881,095	\$21,890,132	\$10,788,175	\$10,000,818	\$ (787,357)	-7.3%

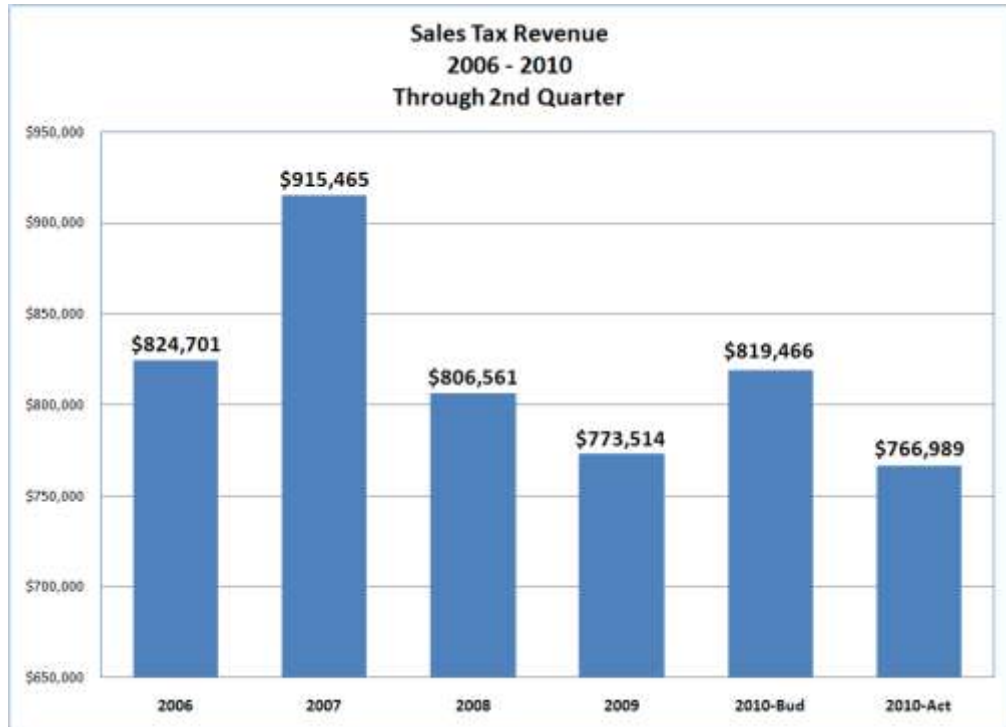
All city departments stayed within their allocated 2010 budgets, with the exception of municipal court due primarily to increased court activity that is offset with increased fines and forfeitures. Operating transfers to the Street Operating Fund and Recreation Fund are below budget,



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 May sales activities, the City accrues sales tax revenue in June, and the City receives cash in July.



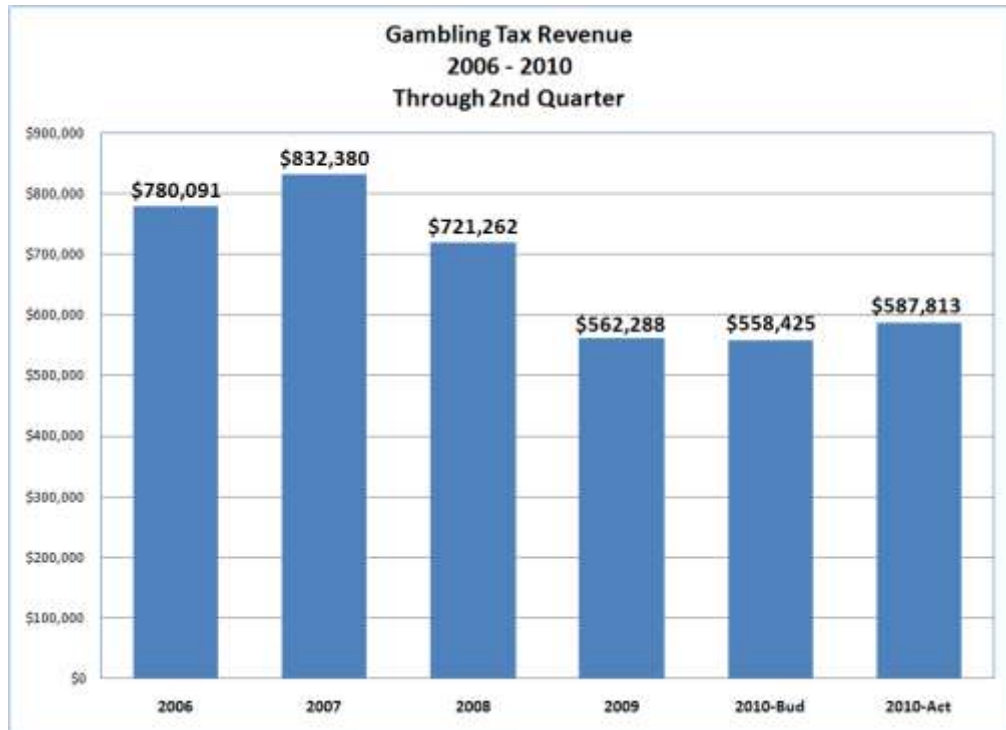
Actual sales tax proceeds through June 2010 total \$766,989, which is \$52,477 or

6.4% below the budget estimate (\$819,466). This shortfall is a result of the current recession that began in December 2007, again reflecting the weak economic climate locally, regionally and nationally. Compared to collections through second quarter 2009 (\$773,514), sales tax collections have decreased \$6,525 or 0.8%. Similarly, we still lag far behind collections through second quarter for 2006 through 2008.

Sales Tax Month	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
January	\$ 137,110	\$ 156,986	\$ 106,774	\$ 140,444	\$ 130,505	\$ 117,297	\$ (13,208)	-10.1%
February	123,338	194,488	111,126	116,477	131,975	127,379	(4,596)	-3.5%
March	143,207	148,208	178,228	125,946	145,629	144,424	(1,205)	-0.8%
April	131,338	130,211	133,987	128,375	130,473	125,573	(4,900)	-3.8%
May	138,482	123,979	123,005	129,478	127,241	121,399	(5,842)	-4.6%
June	151,226	161,593	153,441	132,794	153,642	130,917	(22,725)	-14.8%
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	\$ 766,989	\$ (52,477)	-6.4%

Gambling Tax

The following graph and table summarizes gambling tax revenue collections for second quarter between 2006 and 2010. Through second quarter 2010, gambling tax collections totaled \$587,813, which is \$29,388, or 5.3% above the budget estimate (\$558,425).



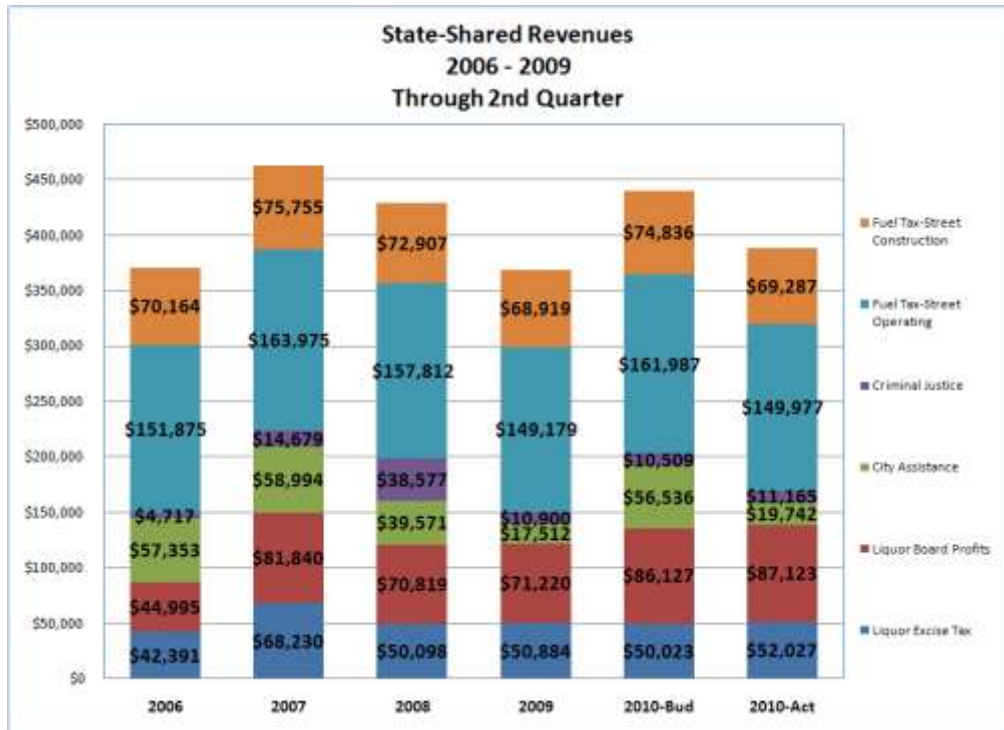
Compared to second quarter 2009 activity (\$562,288), gambling tax collections have increased \$25,525, or 4.5%.

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 lag far behind collections through second quarter for 2006 through 2008. 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	\$ 242,026	\$ 297,982	\$ 271,318	\$ 280,560	\$ 278,000	\$ 297,922	\$ 19,922	7.2%
Red Dragon Casino	244,055	264,629	245,641	193,339	200,000	217,032	17,032	8.5%
Silver Dollar Casino	169,184	160,254	109,797	-	-	-	-	n/a
Seattle Junior Hockey	78,667	76,379	59,477	43,101	46,000	40,881	(5,119)	-11.1%
Other Restaurants, Pubs	46,159	33,136	35,029	45,288	34,425	31,978	(2,447)	-7.1%
Total Gambling Business	\$ 780,091	\$ 832,380	\$ 721,262	\$ 562,288	\$ 558,425	\$ 587,813	\$ 29,388	5.3%

State-Shared Revenues

The following graph and table presents a comparison of State-Shared revenues received for second quarter between 2006 and 2010. State-shared revenues totaled \$389,321 through second quarter 2010, which is \$50,696, or 11.5% below the budget estimate (\$440,017). The decrease is attributable again to current economic conditions.



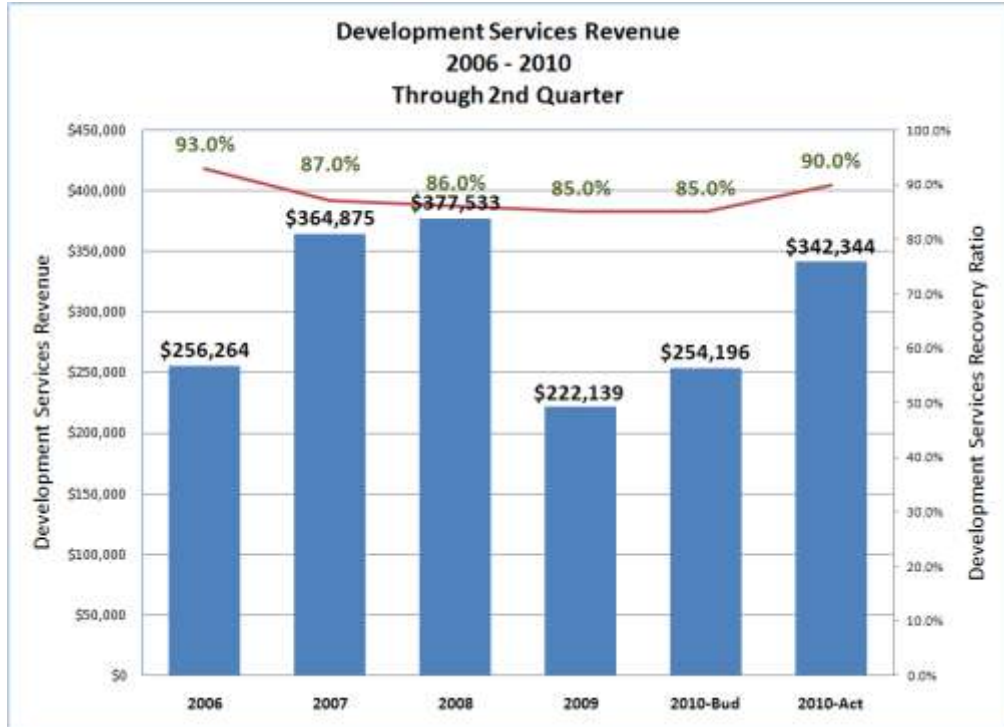
For example, City Assistance funds come from a portion of the State's real estate excise tax. The State's REET collections have been negatively impacted due to the current economic conditions – the result is less City Assistance funds. Similarly, fuel tax dollars that are required by state law to be 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 second quarter 2009 activity (\$368,614) have increased \$20,707, or 5.6%, though they still lag compared to collections through second quarter for 2007 and 2008.

State-Shared Revenues Source	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
General Fund								
Liquor Excise Tax	\$ 42,391	\$ 68,230	\$ 50,098	\$ 50,884	\$ 50,023	\$ 52,027	\$ 2,005	4.0%
Liquor Board Profits	44,995	81,840	70,819	71,220	86,127	87,123	996	1.2%
City Assistance	57,353	58,994	39,571	17,512	56,536	19,742	(36,794)	-65.1%
Criminal Justice	4,717	14,679	38,577	10,900	10,509	11,165	656	6.2%
Total General Fund	\$ 149,456	\$ 223,743	\$ 199,065	\$ 150,516	\$ 203,194	\$ 170,057	\$ (33,137)	-16.3%
Street Operating Fund								
Fuel Tax-Street Operating	151,875	163,975	157,812	149,179	161,987	149,977	(12,010)	-7.4%
Total Street Operating Fund	\$ 151,875	\$ 163,975	\$ 157,812	\$ 149,179	\$ 161,987	\$ 149,977	\$ (12,010)	-7.4%
Street Construction Fund								
Fuel Tax-Street Construction	70,164	75,755	72,907	68,919	74,836	69,287	(5,549)	-7.4%
Total Street Construction Fund	\$ 70,164	\$ 75,755	\$ 72,907	\$ 68,919	\$ 74,836	\$ 69,287	\$ (5,549)	-7.4%
Total State-Shared Revenue	\$ 371,495	\$ 463,473	\$ 429,784	\$ 368,614	\$ 440,017	\$ 389,321	\$ (50,696)	-11.5%

Development Services Fees

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



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

Overall, development services fees collected through second quarter 2010 totaled \$342,344, which is \$88,148 or 34.7% above the budget estimate (\$254,196). Compared with 2009 activity (\$222,139), development services fee revenue has increased \$120,205 or 54.1%.

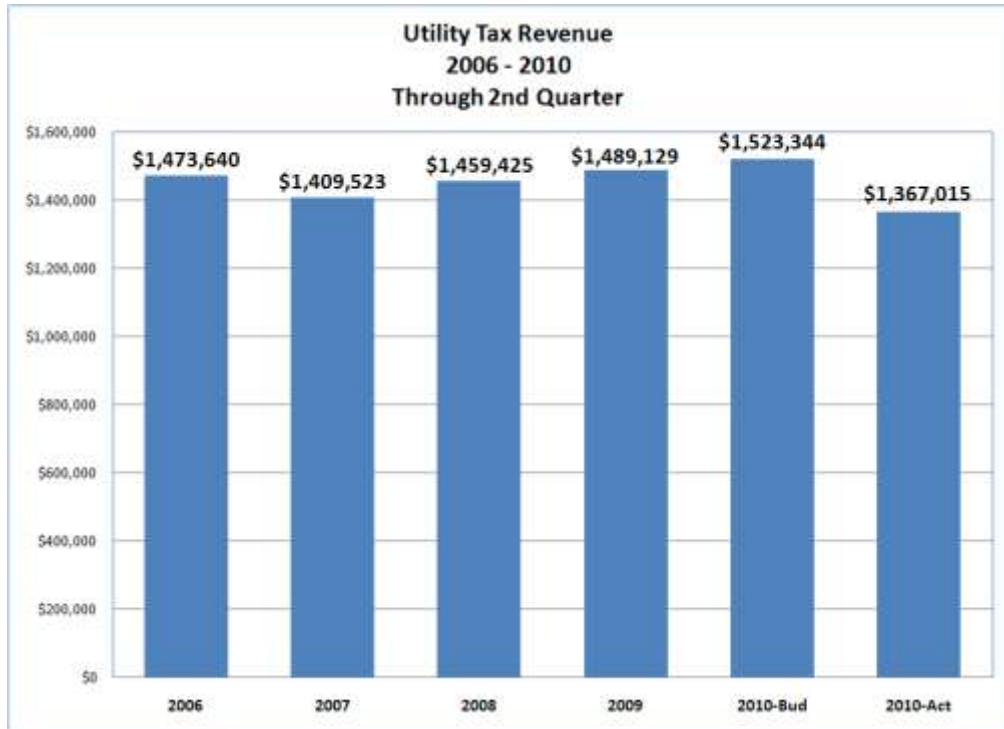
Development Services Source	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
Building Permits	\$ 122,331	\$ 92,873	\$ 82,684	\$ 98,526	\$ 100,000	\$ 167,470	\$ 67,470	67.5%
Engineering Fees	59,076	115,871	44,869	45,633	50,000	87,754	37,754	75.5%
Plan Check/Zoning Fees	74,857	156,131	249,980	77,980	104,196	87,120	(17,076)	-16.4%
Total Development Services	\$ 256,264	\$ 364,875	\$ 377,533	\$ 222,139	\$ 254,196	\$ 342,344	\$ 88,148	34.7%

In addition, our development services program is realizing expenditure savings. The Community and Economic Development Department's operating expenditures are \$126,518 or 21.9% 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 through second quarter between 2006 and 2010. Through second quarter 2010, utility tax collections totaled \$1,367,015, which is \$156,329, or 10.3% below the budget estimate (\$1,523,344).



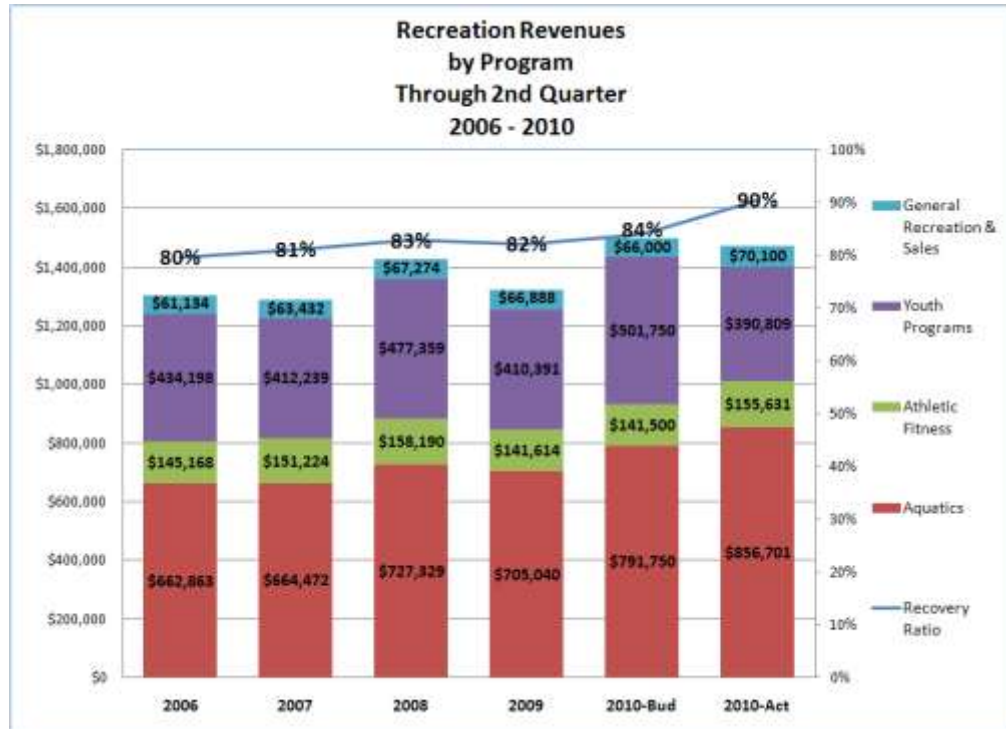
Compared to 2009 second quarter activity (\$1,489,129), utility tax collections have decreased \$122,114 or 8.2%, due primarily to a slow-down in telephone utility tax collections as well as possibly a milder winter that has resulted in lower gas and electric utility taxes as compared to previous years.

Utility Tax Source	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
Gas	\$ 151,694	\$ 182,371	\$ 177,790	\$ 196,623	\$ 160,438	\$ 139,747	\$ (20,691)	-12.9%
Solid Waste	104,779	109,466	109,007	126,620	130,000	120,307	(9,693)	-7.5%
Telephone	402,412	352,456	370,173	371,134	400,000	315,568	(84,432)	-21.1%
Electricity	366,777	382,547	389,156	380,783	362,928	367,857	4,930	1.4%
Cable	188,231	98,964	103,343	97,954	106,607	97,342	(9,265)	-8.7%
City Utilities	259,747	283,719	309,956	316,015	363,372	326,194	(37,178)	-10.2%
Total Utility Tax Revenues	\$ 1,473,640	\$ 1,409,523	\$ 1,459,425	\$ 1,489,129	\$ 1,523,344	\$ 1,367,015	\$ (156,329)	-10.3%

Recreation Program

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

Through second quarter 2010, recreation fee collections totaled \$1,473,241, which is \$27,759, or 1.8% below the budget estimate (\$1,501,000).



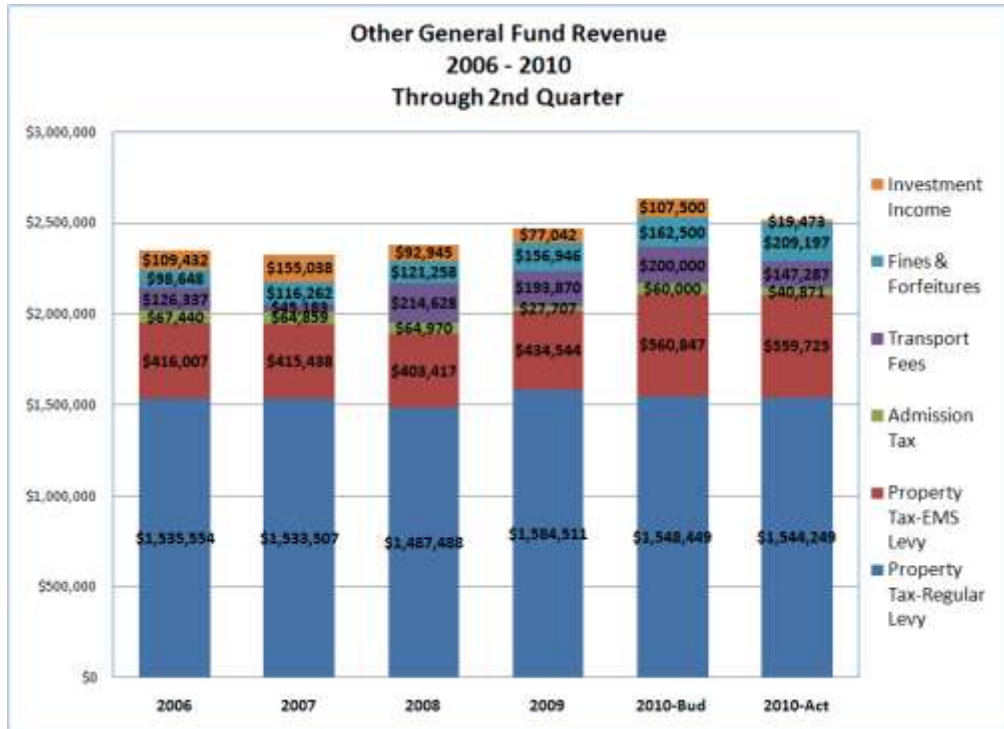
Compared to second quarter 2009 activity (\$1,323,933), recreation fee collections have increased by \$149,308, or 11.3%. This increase is most likely attributable to the recent closure of other facilities in the area coupled with clients taking advantage of our Recreation Pavilion, a locally and nationally recognized community amenity.

In addition, recreation program costs (\$1,628,620) are under the budget estimate (\$1,786,582) by \$157,962 or 8.8%, reflecting the financial prudence being practiced by the Recreation Department. The result of this is that the recreation program's cost recovery ratio is 90% considerably larger than previous years.

Recreation Program Source & Uses	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
<i>Recreation Fees</i>								
Aquatics	\$ 662,863	\$ 664,472	\$ 727,329	\$ 705,040	\$ 791,750	\$ 856,701	\$ 64,951	8.2%
Athletic Fitness	145,168	151,224	158,190	141,614	141,500	155,631	14,131	10.0%
Youth Programs	434,198	412,239	477,359	410,391	501,750	390,809	(110,941)	-22.1%
General Recreation & Sales	61,134	63,432	67,274	66,888	66,000	70,100	4,100	6.2%
Program Fees	\$ 1,303,363	\$ 1,291,367	\$ 1,430,152	\$ 1,323,933	\$ 1,501,000	\$ 1,473,241	\$ (27,759)	-1.8%
<i>Recreation Program</i>								
Aquatics	\$ 792,592	\$ 808,983	\$ 848,555	\$ 718,463	\$ 807,301	\$ 757,033	\$ (50,268)	-6.2%
Athletic Fitness	172,314	138,025	182,280	140,089	182,842	145,964	(36,878)	-20.2%
Youth Programs	562,553	537,672	590,453	647,284	693,944	622,044	(71,900)	-10.4%
General Recreation	15,684	12,622	11,162	12,419	9,997	11,079	1,083	10.8%
Debt Service	92,500	92,500	92,500	92,500	92,500	92,500	-	0.0%
Program Costs	\$ 1,635,643	\$ 1,589,802	\$ 1,724,950	\$ 1,610,755	\$ 1,786,582	\$ 1,628,620	\$ (157,962)	-8.8%
General Fund Subsidy	\$ (332,280)	\$ (298,435)	\$ (294,798)	\$ (286,822)	\$ (285,582)	\$ (155,379)	\$ 130,203	-45.6%
Cost Recovery Ratio	80%	81%	83%	82%	84%	90%	6.4%	7.7%

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 \$84,919 as compared to 2009 reflecting the levy approved by voters in November 2009 in support of EMS services.



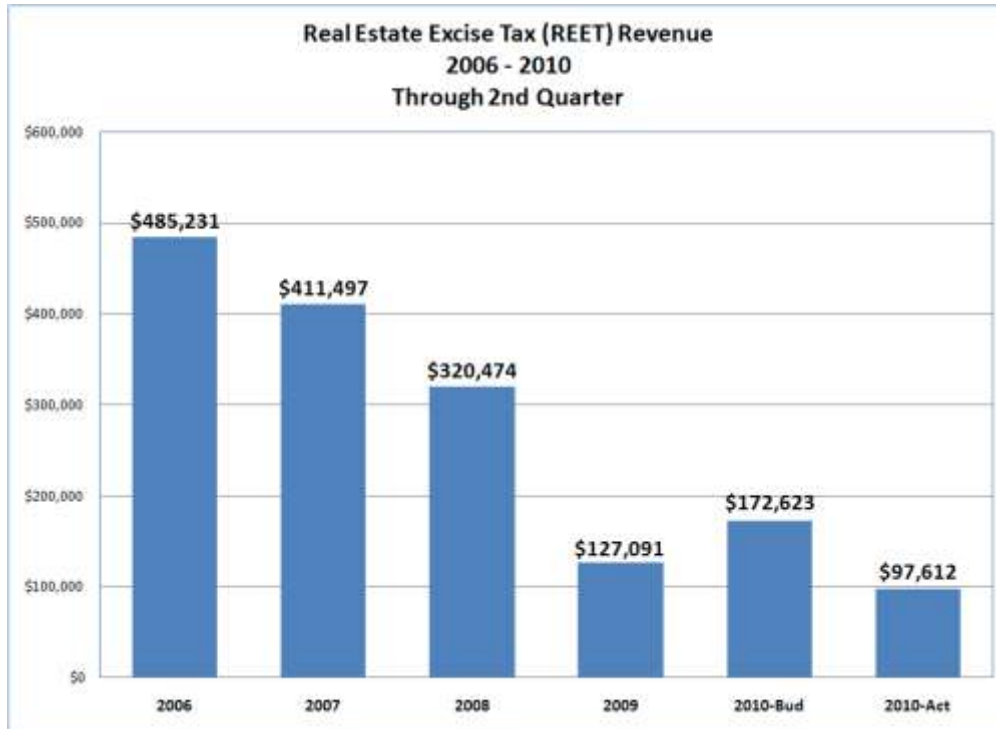
- Admission taxes total \$40,891 through second quarter 2010, which is \$19,129 or 31.9% below the adopted budget (\$60,000) and represents activity at Cinebarrre, which replaced the Regal Mountlake 9 Theatre in mid-2009. Reports reveal that their unique and different approach to taking in a movie has 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. This is reflected in the fact that admissions taxes have increased \$13,164 or 47.5% from collections through second quarter 2009 (\$27,707)
- Transport fees, which represent financial reimbursement from Medicaid, Medicare, and private insurance policies for the cost of providing medically necessary ambulance transportation is below budgetary estimates (\$200,000) by \$52,713 or 26.4%.
- Fines and forfeitures revenues collections (\$209,197), which are comprised primarily of traffic infractions and criminal citations, are above budgetary estimates (\$162,500) by \$46,697 or 28.7%. Compared to collections through second quarter 2009 (\$156,946), collections have increased \$52,251 or 33.3% reflecting a more proactive police presence in the community. This revenue source helps pay for municipal court service costs.
- General Fund investment interest revenues total \$19,478, which is \$88,027 or 81.9% below the budget estimate (\$107,500). While we do expect to fall short of our projected investment interest projections, most of our investment earnings are received during 4th quarter. It is the policy of the City of Mountlake Terrace that funds will be invested in only those investments permitted by Federal and State law as it relates to public funds. The primary objectives for the City's investment activities are (listed in the order of priority): safety, liquidity and yield.

Capital Improvement Funds

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

Sources & Uses					2010			Change (bud vs. act)	
	2006	2007	2008	2009	Budget			\$	%
					Annual	2nd 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	172,623	97,613	(75,010)	-43.5%
Motor Vehicle Fuel Tax	150,104	156,166	149,373	143,861	149,672	74,836	69,287	(5,549)	-7.4%
Cable PEG Fees	16,796	16,988	16,916	21,485	17,000	8,500	8,551	51	0.6%
Transportation Impact Fees	-	-	2,334	1,081	266,400	14,897	14,897	-	n/a
Park Impact Fees	-	-	4,224	2,026	170,000	46,603	46,603	-	n/a
Investment Interest/Other	165,996	282,880	257,504	150,613	120,500	60,250	53,645	(6,605)	-11.0%
Subtotal Operating Revenue	1,299,507	1,149,135	916,715	611,718	1,073,572	377,709	290,596	(87,113)	-23.1%
Other Financing Sources									
Transfer In: General Fund	741,756	2,126,000	356,000	500,000	655,000	327,500	327,500	-	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	5,000	5,000	-	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	210,367	210,367	-	n/a
Subtotal Other Financing Sources	1,726,142	4,873,855	702,853	2,289,307	2,945,794	566,656	542,867	(23,789)	-4.2%
Total Capital Improvement Funds	\$ 6,600,819	\$10,620,305	\$ 8,361,147	\$ 8,524,161	\$ 8,676,784	\$ 5,601,783	\$ 5,490,880	(110,903)	-2.0%
Capital Program									
Overlay Program	\$ 881,419	\$ 483,158	\$ 474,248	\$ 999,768	\$ 873,492	\$ 40,755	\$ 40,755	-	0.0%
Chip & Slurry Seal Program	211,091	155,610	236,245	191,901	293,200	806	806	-	0.0%
ADA Sidewalk Program	-	-	-	36,773	132,198	-	-	-	n/a
Traffic Calming Program	1,695	5,995	15,152	-	47,848	-	-	-	n/a
Bicycle Route Program	-	-	-	-	20,000	-	-	-	n/a
Sidewalk Program	48,175	294,480	55,067	55,611	973,272	8,764	8,764	-	0.0%
Transportation Plan	-	75,057	-	-	-	-	-	-	n/a
Traffic & Signal Control Program	182,470	-	26,072	140,367	786,940	71,793	71,793	-	0.0%
Interurban Trail Link	39	4,681	150,256	5,800	21,444	-	-	-	n/a
Street Reconstruction	8,145	13,659	16,960	210,784	2,763,911	714,944	714,944	-	0.0%
Engineering Services	87,000	184,455	238,244	341,589	185,945	148,944	148,944	-	0.0%
Capital-Artwork	-	-	7,500	17,500	-	-	-	-	n/a
Capital-Information Technology	65,856	144,111	166,196	174,445	158,517	32,056	32,056	-	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	21,329	21,329	-	0.0%
Capital-Interim City Hall	-	-	-	399,982	578,645	394,706	394,706	-	0.0%
Capital-Parks	-	114,128	280,419	61,757	143,818	320	320	-	0.0%
Capital-Recreation	29,182	13,719	24,870	21,818	22,200	527	527	-	0.0%
Capital-Police	81,226	-	71,206	60,666	84,824	61,014	61,014	-	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	1,495,958	1,495,958	-	0.0%
Transfer Out (Debt Service & CIP)	352,336	1,917,839	370,250	922,478	352,000	176,000	112,131	(63,869)	-36.3%
Total Capital Improvement Funds	\$ 2,003,504	\$ 3,878,726	\$ 2,738,010	\$ 3,866,743	\$ 7,504,595	\$ 1,671,958	\$ 1,608,089	(63,869)	-3.8%
Fund Balances									
Designated/Reserved:									
P.E.G. (Cable Fees)	\$ 32,309	\$ 37,476	\$ 47,886	\$ 63,926	\$ 70,926	\$ 72,426	\$ 72,477	51	0.1%
Transportation Impact Fees	-	-	2,334	2,334	269,815	18,312	18,312	-	0.0%
Park Impact Fees	56,213	56,213	10,110	6,250	340,000	52,853	52,853	-	0.0%
Capital Improvements	4,508,793	6,647,890	5,562,807	4,584,908	491,448	3,786,234	3,739,149	(47,085)	-1.2%
Total Ending Fund Balances	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 4,657,418	\$ 1,172,189	\$ 3,929,825	\$ 3,882,791	\$ (47,034)	-1.2%

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 second quarter 2010, REET revenues (\$97,612) were under budgetary estimates (\$172,623) by

\$75,011 or 43.5%. Compared with second quarter 2009 activity (\$127,091), REET revenues have decreased \$29,479 or 23.2%. This decline is reflective of the slowing real estate market.

Real Estate Excise Tax Month	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
January	\$ 40,033	\$ 47,661	\$ 40,985	\$ 45,587	\$ 24,929	\$ 11,186	\$ (13,743)	-55.1%
February	35,329	34,742	34,647	11,905	17,995	6,579	(11,416)	-63.4%
March	65,065	61,674	34,183	15,461	24,214	21,687	(2,527)	-10.4%
April	64,087	66,041	38,536	16,750	25,292	20,069	(5,223)	-20.7%
May	67,692	88,856	128,309	16,282	40,739	22,519	(18,220)	-44.7%
June	213,025	112,523	43,814	21,106	39,454	15,572	(23,882)	-60.5%
July	135,618	72,816	33,147	47,594	43,480			
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	\$ 97,612	\$ (75,011)	-43.5%

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 \$4.8 million dedicated for much needed capital investments:

52nd/53rd Avenues Water Main Construction Project

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

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

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

230th Street SW Reconstruction Project

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

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

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

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

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

Stormwater Program

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

Town Center

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

Lakeview Trail

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

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

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

Electric Vehicle Charging Stations

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

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

Grant	Project	Amount Requested
Safe Routes to School	54 th Ave W, 220 th to 223 rd Sidewalks	\$330,000
Sustainable Communities	Regional Planning Project (PSRC application)	Up to \$5,000,000
Community Challenge Planning Grant	Comprehensive Plan	\$120,000
TIGER II	56 th Ave W Reconstruction	\$14,000,000
State TIB	Street/Sidewalk project(s) – TBD	TBD
TDR Alliance/Commerce	Transfer of Development Rights	\$100,000
Transportation Enhancements Program	Lakeview Trail	\$1,900,000
PSRC/CMAQ	Lakeview Trail	\$300,000

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

Key Capital & Construction Investment Projects

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

Projects recently completed...

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

Major construction complete and the project is scheduled to be closed out in September/October.

Projects underway...

3. 222nd Street Sidewalk Connection at Jack Long Park: The project, which began earlier this summer provides curbs and sidewalks along the north side of 222nd Street SW and will complete a missing link in the sidewalk network connecting 58th and 60th Avenues W. Sidewalk ramps and drainage improvements have been constructed at the intersection of 222nd and 60th. Where the new sidewalk passes the frontage of Jack Long Park, a stairway has been constructed up a steep grassy slope to the park's south entrance. A Community Development Block Grant (CDBG) is funding about 80% of the construction contract cost. Construction is anticipated to be completed later this summer.
4. 214th & 44th Traffic Signal: The new signal will enhance safety and increase capacity of 44th Avenue West and 214th Street SW. The project includes interconnecting the new signal with the existing signals at 212th Street SW and 217th Street SW so all three will operate in coordination. Other improvements at the intersection include new sidewalk ramps, uniform street lighting, and consolidation of the two driveways into a single driveway on the west approach to the signal. Construction is scheduled to begin in early fall.
5. East Side Water System Water Improvements: A new 12" diameter main will be installed in 228th Street SW between 39th and 44th, in Cedar Way from 228th to entrance to the 23400 block, and in 222nd Street between 39th and 44th to increase the available fire flow in the area. Construction beginning in late fall. A street overlay will follow in 2011 or 2012.
6. Town Center Water System Improvements: A new 12" diameter main will be installed in 55th Avenue W from 230th to the 23700 block, and in 230th and 234th Streets SW from 55th to 56th. A new 8" diameter main will be installed in 230th Street SW from 53rd to 56th. This project is funded up to 55% with a US Environmental Protection Agency (EPA) grant. Considering the current favorable bidding climate, contract will include additional water system improvements so that all of the EPA grant can be used. This additional work will be optional depending on the bids. The optional improvements are a new 16" diameter main in 234th from 56th to 58th, and a new 12" main in 56th from 228th to 230th. Construction is anticipated to begin in late fall.
7. Storm and Sanitary Reconstruction Projects: This project is a combination of smaller storm and sanitary improvements at numerous locations throughout the City. Nearly all of the improvements are undertaken to replace sewer and storm systems that are failing and require high levels of maintenance, or to make minor modifications to improve access to portions of these systems which are difficult to properly maintain. Construction is scheduled to begin in summer 2010.
8. Hall Creek Culvert Removal and Sewer Replacement Project: Herrera Environmental Consultants, who were selected earlier this year, have begun to conduct the Engineering, Design and Permitting of the Hall Creek Culvert Removal and Sewer Replacement Project. This complex project due to the permitting requirements and the varied components of the project is the combination of two adjacent projects, a culvert removal project and sewer main replacement project that will benefit the Water, Sewer and Storm Water Utilities. The primary objective of the culvert removal project is to help to alleviate flow constriction caused by the undersized culverts that during large storm events that results in localized

flooding. Seeing that all flow from Hall Creek eventually reaches Lake Ballinger either over the top of the roadway on 230th or through the four culverts, there is no anticipated to change in the total volume of water reaching the lake for a given event. Secondary project objectives include water quality enhancements, removal of a fish passage barrier, relocation of the eight inch water main, retaining the grade and alignment of the existing sewer under the creek, preserving pedestrian access across the creek with the installation of a pedestrian bridge, and accommodating a vehicle turnaround for 230th Street SW. The objective of the sewer project is to replace portions and rehabilitate portions of the existing sewer main where the line has settled and requires frequent maintenance. The project schedule is complete design and permitting by April 2011 with construction occurring in the summer of 2011.

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

10. Town Center

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

Utility Funds

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

- **Storm Water:** Storm Water operating revenues are under budgetary estimates by \$18,978 or 3.0% through quarter 2010, however, that is more than offset with operating expenditures savings, which are under budgetary estimates by \$80,995 or 13.2% due primarily to lower than anticipated maintenance costs.
- **Water:** Water operating revenues exceeded budgetary estimates by \$52,010 or 4.1% through second quarter 2010 while operating expenditures are below budgetary estimates by \$406,148 or 28.5% due primarily to lower than anticipated maintenance costs.
- **Sewer:** Sewer operating revenues are under budgetary estimates by \$39,962 or 2.5% through second quarter 2010, while operating expenditures are under budgetary estimates by \$326,974 or 22.5% due primarily to lower than anticipated maintenance costs.

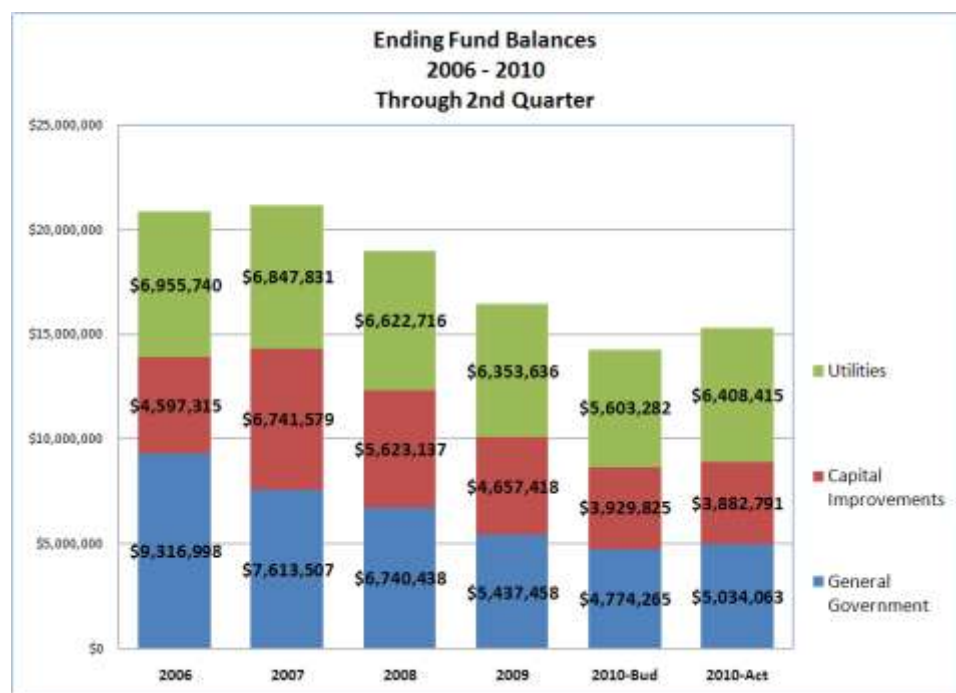
Sources & Uses					2010			Change (bud vs. act)	
					Budget				
	2006	2007	2008	2009	Annual	2nd Qtr	Actual	\$	%
Utility Funds									
Beginning Fund Balances	\$7,286,594	\$6,847,767	\$6,936,129	\$6,622,716	\$6,353,636	\$6,353,636	\$6,353,636	\$ -	0.0%
Operating Revenues									
Storm Water	917,421	931,680	1,018,450	1,142,696	1,334,173	627,061	608,083	(18,978)	-3.0%
Water	2,651,866	2,529,983	2,755,605	2,799,047	2,854,283	1,255,885	1,307,895	52,010	4.1%
Sewer	2,889,815	2,812,790	3,056,971	3,028,233	3,343,634	1,604,944	1,564,982	(39,962)	-2.5%
Subtotal Operating Revenues	6,459,102	6,274,453	6,831,026	6,969,976	7,532,090	3,487,890	3,480,960	(6,930)	-0.2%
Operating Expenditures									
Storm Water	847,183	906,074	909,589	1,049,582	1,226,479	613,240	532,245	(80,995)	-13.2%
Water	2,327,798	2,309,016	2,273,928	2,446,738	2,845,847	1,422,924	1,016,776	(406,148)	-28.5%
Sewer	2,317,565	2,445,042	2,606,838	2,597,915	2,900,585	1,450,293	1,123,319	(326,974)	-22.5%
Debt Service	105,010	105,687	88,882	120,860	120,400	120,400	122,452	2,052	n/a
Subtotal Operating Expenditures	5,597,556	5,765,819	5,879,237	6,215,095	7,093,311	3,606,856	2,794,792	(812,064)	-22.5%
Operating Surplus (Deficit)	861,546	508,634	951,789	754,881	438,779	(118,965)	686,168	805,133	-676.8%
Other Financing Sources									
Grants and PWTFI	-	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	60,200	60,200	-	n/a
Subtotal Other Financing Uses	1,717,093	3,592,358	5,015,546	597,012	5,197,400	60,200	60,200	-	n/a
Other Financing Uses									
Construction Projects	1,300,197	904,846	1,516,706	1,620,973	6,209,061	691,589	691,589	-	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	691,589	691,589	-	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	988,205	1,050,221	62,016	6.3%
Water	2,951,524	3,260,139	2,576,703	2,350,158	2,606,264	1,828,758	2,286,916	458,158	25.1%
Sewer	2,148,133	2,073,392	2,033,658	1,986,654	1,187,484	1,800,582	2,087,593	287,011	15.9%
Debt Service	151,457	-	-	-	-	(60,200)	(62,252)	(2,052)	3.4%
Undesignated/Unreserved	-	-	-	-	-	-	-	-	n/a
Total Ending Fund Balances	\$6,955,740	\$6,847,831	\$6,622,716	\$6,353,636	\$5,780,754	\$5,603,282	\$6,408,415	\$ 805,133	14.4%

Ending Fund Balances/Reserves

The following graph and table illustrates the City's ending fund balances between 2006 and second 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	724,752	724,752	-	0.0%
Reserved/Designated								
Encumbrances	402,437	179,672	185,553	532,789	702,215	711,695	9,480	1.4%
Equipment Replacement & Reserve	2,294,889	2,307,593	2,345,407	1,584,367	1,232,533	1,341,760	109,228	8.9%
Hotel/Motel-Tourism	35,922	32,907	34,979	30,178	15,042	15,042	-	0.0%
Solid Waste-Billing Exemptions	58,359	61,628	40,531	27,686	16,807	16,807	-	0.0%
Accumulated Leave Reserve	761,751	283,723	234,381	241,340	247,340	244,349	(2,991)	-1.2%
Subtotal Reserved/Designated	5,164,633	4,497,659	4,565,685	3,819,287	3,671,732	3,787,448	115,717	3.2%
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	809,317	953,398	144,081	17.8%
Total General Government	\$ 9,316,998	\$ 7,613,507	\$ 6,740,438	\$ 5,437,458	\$ 4,774,265	\$ 5,034,063	\$ 259,798	5.4%
<i>Capital Improvement</i>								
Reserved/Designated								
P.E.G. (Cable Fees)	32,309	37,476	47,886	63,926	72,426	72,477	51	0.1%
Transportation Impact Fees	-	-	2,334	2,334	18,312	18,312	-	0.0%
Park Impact Fees	56,213	56,213	10,110	6,250	52,853	52,853	-	0.0%
Capital Improvements	4,508,793	6,647,890	5,562,807	4,584,908	3,786,234	3,739,149	(47,085)	-1.2%
Total Capital Improvement	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 4,657,418	\$ 3,929,825	\$ 3,882,791	\$ (47,034)	-1.2%
<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	988,205	1,050,221	62,016	6.3%
Water	2,951,524	3,260,139	2,576,703	2,350,158	1,828,758	2,286,916	458,158	25.1%
Sewer	2,148,133	2,073,392	2,033,658	1,986,654	1,800,582	2,087,593	287,011	15.9%
Debt Service	151,457	-	-	-	(60,200)	(62,252)	(2,052)	n/a
Total Utilities	\$ 6,955,740	\$ 6,847,831	\$ 6,622,716	\$ 6,353,636	\$ 5,603,282	\$ 6,408,415	\$ 805,133	14.4%
Total Ending Fund Balances	\$20,870,053	\$21,202,917	\$18,986,291	\$16,448,512	\$14,307,371	\$15,325,269	\$1,017,898	7.1%

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 \$3,787,448 at the end of second quarter 2010, are those moneys that have been earmarked for a strategic reserve fund (\$724,752), equipment replacement reserves (\$1,341,760), accumulated leave reserves (\$244,349), and General Fund reserves totaling 5% of operating expenditures (\$733,043). This reserve designation also include encumbrances from prior and current year (\$711,695), funds dedicated solely for tourism purposes (\$15,042), and solid waste billing exemptions (\$16,807).

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 (\$5,362,478). All Capital (\$3,882,791) and Utility Construction Fund balances (\$5,362,478) 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 (\$953,398) in the General Fund through second quarter 2010 are over the budget estimate (\$809,317) by \$144,081 or 17.8%. 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. These funds are not available for ongoing programs and services funded as part of the six-year financial forecast.

Action Strategies and Preventative Measures Implemented

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

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

The good news is that we began implementing steps in 2008 to mitigate the impact to ensure we meet our financial objectives and these steps will continue indefinitely. After prioritizing our services based on life/health/safety, legal mandates, and Council goals and priorities, 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.
- Non-essential information technology, recreation, and park improvements have also been delayed.
- All current and future positions that are vacated by attrition will not be filled with the exception of police patrol vacancies.
- A vacant maintenance position in our Street Division is being filled by employees from our Parks 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 financial reserves. The current economic climate has created a structural problem in our General Fund, meaning the use of reserves now does not address the ongoing and permanent loss of tax revenues.

A continued focus of program prioritization (e.g., economic development, capital infrastructure investment, communication and outreach with the community, and key essential public services such as public safety, parks, development services, recreation, streets, and utilities) and cost efficiencies (e.g., action strategies and preventative approaches as outlined above) is the most prudent way to ensure the city’s financial health and continue to ensure that no services to our

residents will need to be reduced. This approach has proven successful thus far – it is better to be proactive versus reactive, otherwise we prolong the inevitable.

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

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

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

Temporary Reductions in Development Services:

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

Economic Development:

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

Conclusion

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

Attachments

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