

MEMORANDUM

TO: City Council

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

DATE: April 14, 2011

SUBJECT: **Year-End Financial Report & Performance Measures
January through December 2010**

Overview

This report is intended to provide an overview of financial activity that has taken place from January 1, 2010 through December 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 December 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 and December, 2010. Attachment B details performance measurement activity for the years 2005 through 2010.

In summary, 2010 was another successful year for the City of Mountlake Terrace, both from an operational perspective and financial one, which reflects sound financial and management policies practiced by the City. Overall, 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, 2010, the Standard & Poor's (S&P) has assigned its 'AA' Rating to the city's 2010 series water and sewer revenue bonds that Council authorized on August 16, 2010. 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 2010 audit, in partnership with the State Auditor's Office (SAO) has begun. We will again for 2010 be preparing a Comprehensive Annual Financial Report (CAFR), which goes beyond the financial reporting, required by both the SAO and those, required as part of generally accepted accounting principles (GAAP). The 2010 CAFR is expected to be completed by the end of June 2011.

The result of this increased financial reporting is that for the fourth 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, 2008, and 2009 comprehensive annual financial reports (CAFRs). The Certificate of Achievements recognizes the City for its excellence in financial reporting and is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by the City. The CAFR demonstrates a constructive "spirit of full disclosure" to clearly communicate the City's financial story and motivates potential users and user groups to read the CAFR.

The City of Mountlake Terrace is one of only about 33 cities in Washington State to receive a certificate and is only one of 21 cities statewide to receive certificates for both the CAFR and the Distinguished Budget Award from GFOA. Only 5% of cities nationwide (1,809 of 36,010) 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

It has been reported that the recession is over and economic recovery is underway. This, however, is contrary to the reality being experienced at the local and state government level which continues to be an environment of constant change and uncertainty. The impact of the "Great Recession" continues to take its toll on all segments of our economy and will continue to do so for the foreseeable future. The financial crisis facing local government will continue for years; it may take 5-10 years for local government finances to return to its vibrant form of the mid-2000's.

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

For the City of Mountlake Terrace, we have thus far, endured 36 months (December 2007-December 2010) of the most difficult financial times in generations. Our community is in an

enviable position of being to maintain basic municipal services. We can maintain this position as long as we continue with the prudent financial discipline the City Council has implemented, such as having a balanced budget, staying the course with our six-year financial forecast, an aggressive and proactive capital improvement plan, strong reserves, the adherence to our financial policies, and a continued focus to live within our means. These steps will continue to ensure services to our residents will not have to be reduced.

We have become well accustomed to delivering much more for less; indeed, we have more than adequately responded to this challenge. Our City has cultivated a new culture of strategic leadership that no longer subscribes to the old saying, ‘That’s the way we always did it.’ Rather we’ve become more efficient in our spending practices, delivering efficiency savings on a regular basis to combat the continued uncertainty.

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

We have maintained fiscal discipline while maintaining services during the most turbulent times in recent history primarily because the City has taken a proactive approach to mitigate the downward trend in revenue collections. For example, the City continues to proactively pursue and obtain state and federal funding to upgrade our aging infrastructure with new construction, which in turn reduces what residents have to pay locally. 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 negative impact the recession is having on our finances.

Likewise our general fund operating revenues for 2010 are under budget by \$472,171 or 3.2%. On the other hand, operating expenditures savings are under budget by \$707,800 or 4.8%, which have offset the slower than anticipated revenue collections.

It is imperative that we continue with our proactive approach on controlling costs since revenue collections are not expected to increase or recover anytime in the near future. We will continue with a focus on controlling costs along with others we implemented in mid-2008 to mitigate the impact of the recession to ensure we meet our key operational and financial objectives in 2011 and beyond just as we did in 2008, 2009, and 2010.

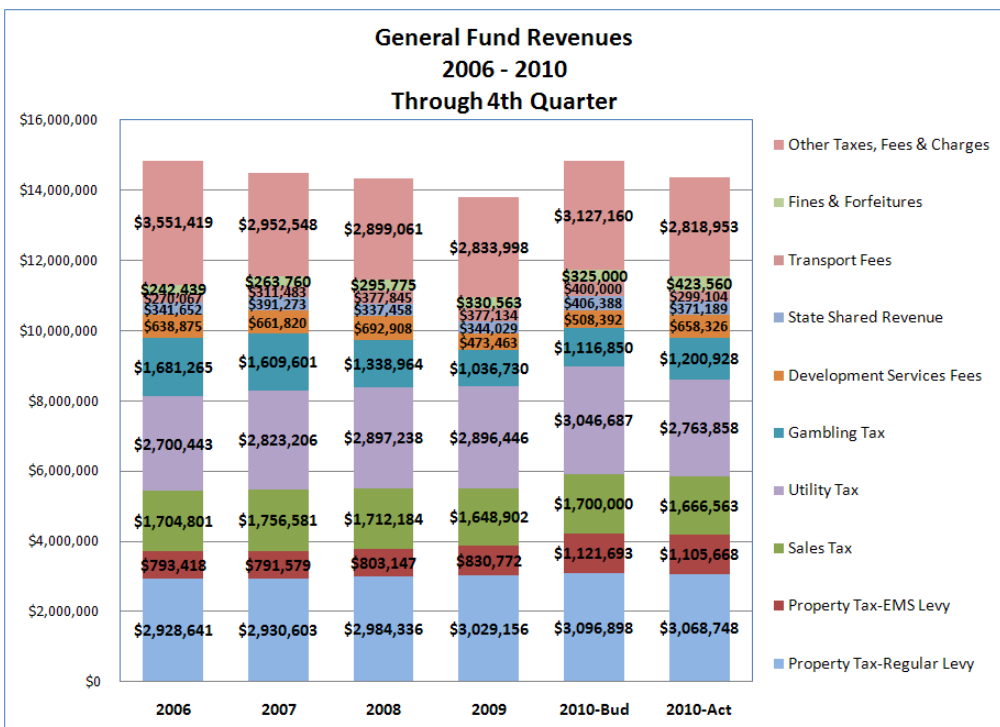
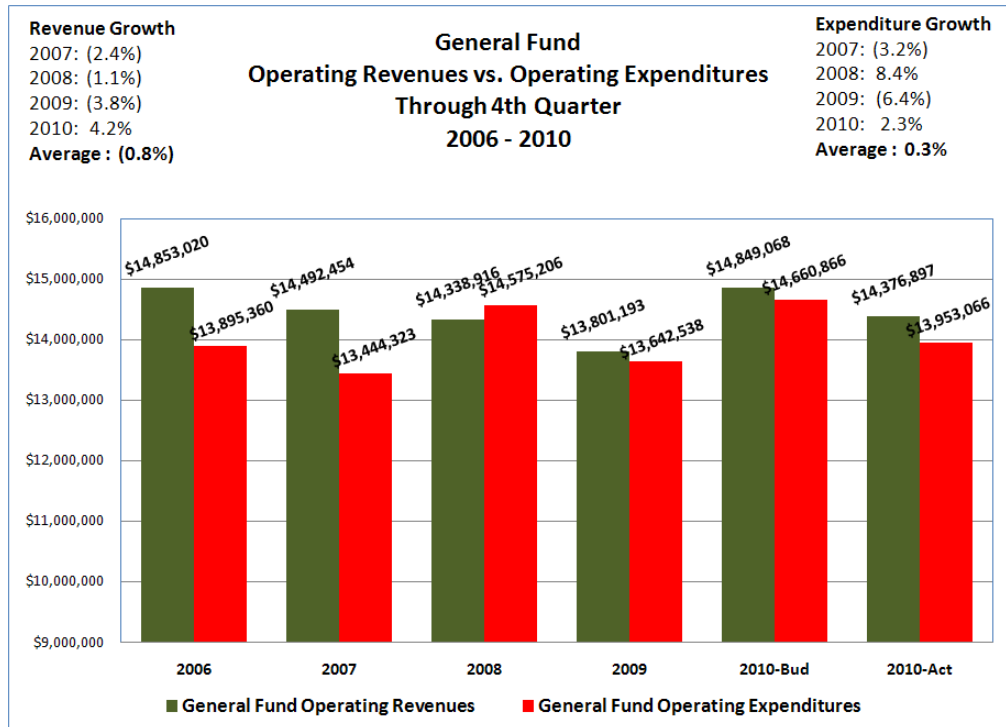
General Government Funds

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

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

Revenues

Overall, General Fund operating revenues (\$14,376,897) collected through December 2010 is below the budget estimate (\$14,849,068) by \$472,171 or 3.2%. However, the shortfall is more than offset by operating department expenditures savings.



Compared with 2009 collections (\$13,801,193), operating revenues have increased \$575,704 or 4.2%, due primarily to voter-approved EMS levy from November 2009, increased fines and

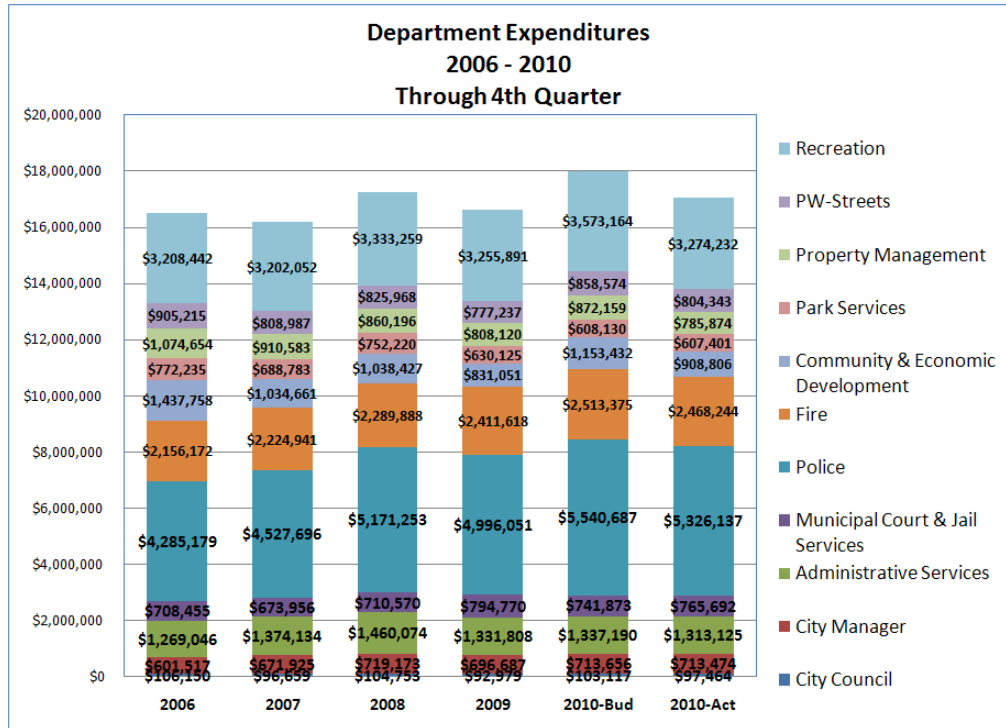
forfeitures, increased development services fees, and an uptick in gambling tax collections. Same year revenue collections (less voter-approved EMS levy from November 2009), general fund operating revenues have increased \$300,808 or 2.2%.

Total general government sources (\$25,390,987) are below the budget estimate (\$26,240,699) by \$849,711 or 3.2%. However, the shortfall is offset by expenditures savings. The lower than anticipated collections to the Fleet Management Fund, 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 three funds. The Recreation Pavilion, buoyed by a combination of increased fee collections and cost savings achieved a cost recovery totaling 85% resulting in a reduced General Fund transfer totaling \$82,249. The Public Works Department achieved operating cost savings totaling \$58,397 in the Fleet Management Fund and \$28,149 in the Street Operating Fund.

Resources by Fund General Government	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
Beginning Fund Balances	\$ 9,464,261	\$ 9,329,323	\$ 7,613,507	\$ 6,740,438	\$ 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	4,174,416	(44,175)	-1.0%
Sales Tax	1,704,801	1,756,581	1,712,184	1,648,902	1,700,000	1,666,568	(33,432)	-2.0%
Utility Tax	2,700,443	2,823,206	2,897,238	2,896,446	3,046,687	2,763,858	(282,829)	-9.3%
Gambling Tax	1,681,265	1,609,601	1,338,964	1,036,730	1,116,850	1,200,928	84,078	7.5%
Other Taxes	141,588	138,687	138,814	75,458	124,000	90,847	(33,153)	-26.7%
Business & Animal Licenses	127,184	139,758	151,698	103,870	148,891	111,256	(37,635)	-25.3%
Development Services Fees	638,875	661,820	515,504	556,047	508,392	658,326	149,934	29.5%
Cable & Solid Waste Franchise Fees	431,546	466,090	666,366	427,758	497,472	527,672	30,200	6.1%
State Shared & Intergov't	569,274	521,996	532,413	487,837	564,255	532,494	(31,761)	-5.6%
Transport Fees	270,067	311,483	377,845	377,134	400,000	299,104	(100,896)	-25.2%
Fines & Forfeitures	242,439	263,760	295,775	330,563	325,000	423,560	98,560	30.3%
Other Fees & Charges	2,411,950	1,769,874	1,734,268	1,882,852	1,983,930	1,899,687	(84,243)	-4.2%
Investment Income	211,529	307,416	190,364	117,668	215,000	28,181	(186,819)	-86.9%
Total General Fund Operating Revenues	14,853,020	14,492,454	14,338,916	13,801,193	14,849,068	14,376,897	(472,171)	-3.2%
Street Operating	367,879	379,475	358,187	343,282	348,974	328,652	(20,322)	-5.8%
Recreation	2,583,003	2,502,136	2,696,972	2,607,733	3,002,000	2,797,313	(204,687)	-6.8%
Debt Service	201,204	192,197	168,371	9,376	3,000	11,872	8,872	295.7%
Total General Govt Operating Revenues	18,005,106	17,566,262	17,562,446	16,761,584	18,203,042	17,514,734	(688,308)	-3.8%
Other Financing Sources								
Strategic Reserve	35,297	43,246	35,556	25,492	30,000	16,360	(13,640)	-45.5%
Fleet Management	769,249	775,957	825,413	727,802	762,605	704,208	(58,397)	-7.7%
Hotel/Motel Tax	26,775	21,985	27,072	23,304	22,500	18,942	(3,558)	-15.8%
Solid Waste Service	17,500	17,500	-	17,500	17,500	17,500	-	0.0%
Accumulated Leave Reserve	29,337	21,972	10,226	6,959	12,000	5,517	(6,483)	-54.0%
General	438,680	209,110	98,938	40,077	150,000	236,071	86,071	57.4%
Street Operating	542,851	247,918	476,132	427,100	506,083	477,934	(28,149)	-5.6%
Recreation	604,854	696,617	682,363	622,229	571,164	488,915	(82,249)	-14.4%
Debt Service	628,825	623,700	637,407	846,613	441,846	395,836	(46,010)	-10.4%
Fleet Management	3,911	-	35,948	79,455	86,500	77,512	(8,988)	-10.4%
Total Other Financing Sources	3,097,279	2,658,005	2,829,055	2,816,531	2,600,198	2,438,795	(161,403)	-6.2%
Total All General Government Funds	\$30,566,646	\$29,553,590	\$28,005,008	\$26,318,553	\$26,240,699	\$25,390,987	\$ (849,711)	-3.2%

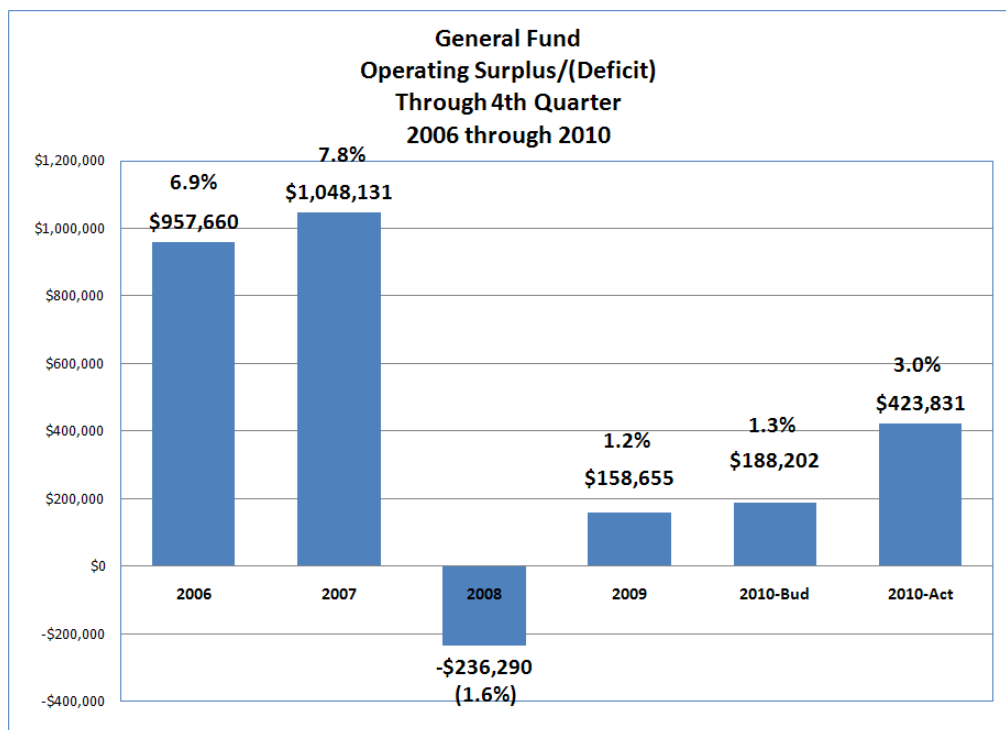
Expenditures

General Fund operating expenditures (\$13,953,066) through December 2010 are below the budget estimate (\$14,660,866) by \$707,800 or 4.8%, which offsets the lower than anticipated general fund revenue collections. Likewise, total government expenditures



(\$20,865,232) are below the budget estimate (\$22,205,586) by \$1,340,354 or 6.0%, which also offsets the lower than anticipated general government revenue collections. These savings are attributable to the financial prudence being practiced by our department directors and their staff and include the elimination of all discretionary spending such as supplies, travel, training, overtime, equipment, temporary help, and non-essential positions. Compared with 2009 general fund expenditure activity (\$13,642,538), operating expenditures have increased \$310,528 or 2.3%, reflecting primarily increased public safety costs.

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



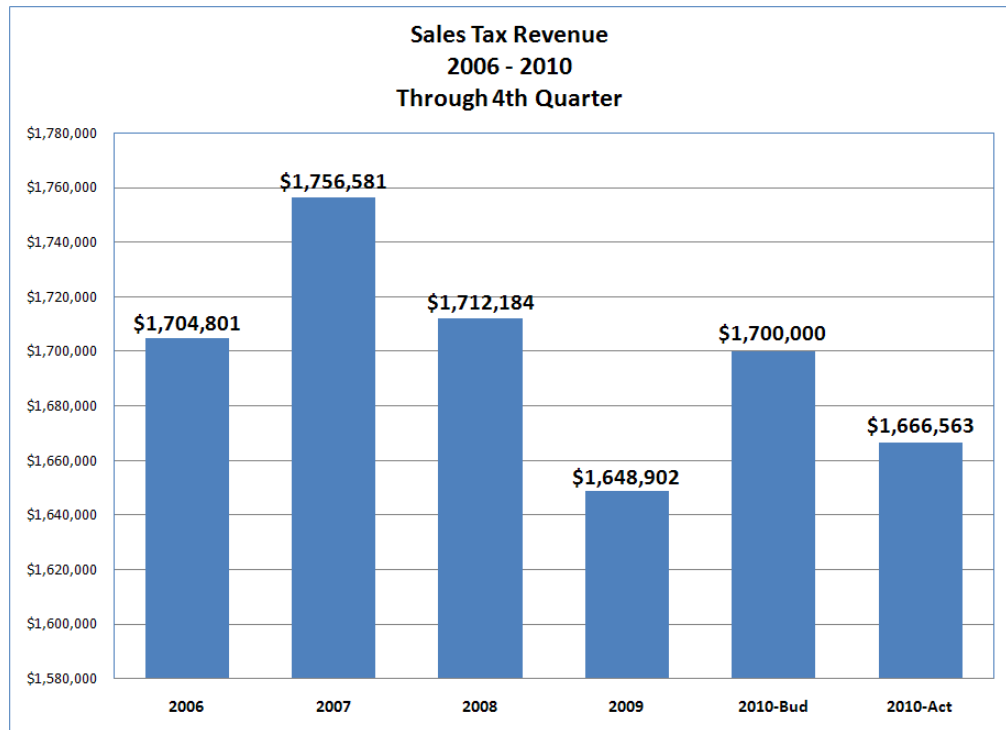
Fleet Management Fund expenditures are below budget, reflecting again the financial prudence

being practiced by department directors and their staff. The result is that while our major revenue collections continue to slow, particularly sales tax, utility tax, transport fees, and investment income, 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.

Expenditures by Fund	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
General Government								
General								
City Council	incl with CM	\$ 96,659	\$ 104,753	\$ 92,979	\$ 103,117	\$ 97,464	\$ (5,653)	-5.5%
City Manager	707,667	671,925	719,173	696,687	713,656	713,474	(182)	0.0%
Administrative Services	1,269,046	1,374,134	1,460,074	1,331,808	1,337,190	1,313,125	(24,065)	-1.8%
Municipal Court & Jail Services	708,455	673,956	710,570	794,770	741,873	765,692	23,819	3.2%
Police	4,285,179	4,527,696	5,171,253	4,996,051	5,540,687	5,326,137	(214,550)	-3.9%
Fire	2,156,172	2,224,941	2,289,888	2,411,618	2,513,375	2,468,244	(45,131)	-1.8%
Community & Economic Development	1,437,758	1,034,661	1,038,427	831,051	1,153,432	908,806	(244,626)	-21.2%
Park Services	772,235	688,783	752,220	630,125	608,130	607,401	(729)	-0.1%
Property Management	1,074,654	910,583	860,196	808,120	872,159	785,874	(86,285)	-9.9%
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	477,934	(28,149)	-5.6%
Oper Transfer Out-Recreation	419,854	511,617	497,363	437,229	386,164	303,915	(82,249)	-21.3%
Oper Transfer Out- Rec Debt Svc	185,000	185,000	185,000	185,000	185,000	185,000	-	0.0%
Total General Fund	13,895,360	13,444,323	14,575,206	13,642,538	14,660,866	13,953,066	(707,800)	-4.8%
Operating Surplus/(Deficit)	957,660	1,048,131	(236,290)	158,655	188,202	423,831	235,629	125.2%
Street Operating	905,215	808,987	825,968	777,237	858,574	804,343	(54,231)	-6.3%
Recreation	3,208,442	3,202,052	3,333,259	3,255,891	3,573,164	3,274,231	(298,933)	-8.4%
Debt Service	823,478	822,448	805,778	454,965	493,038	460,849	(32,189)	-6.5%
Total General Government Funds	18,832,495	18,277,810	19,540,211	18,130,631	19,585,642	18,492,489	(1,093,153)	-5.6%
Other Financing Uses								
Fleet Management	628,542	763,253	823,547	1,568,298	1,522,905	1,357,694	(165,211)	-10.8%
Hotel/Motel Tax	19,302	25,000	25,000	28,105	29,880	29,760	(120)	-0.4%
Solid Waste Service	25,199	14,231	21,097	30,345	35,426	35,400	(26)	-0.1%
Accumulated Leave Reserve	-	500,000	59,568	-	-	-	-	n/a
General	1,324,703	2,359,789	795,147	823,716	1,021,733	939,889	(81,844)	-8.0%
Strategic Reserve	419,407	-	-	300,000	10,000	10,000	-	0.0%
Other Financing Uses	2,417,153	3,662,273	1,724,359	2,750,464	2,619,944	2,372,743	(247,201)	-9.4%
Total All General Government Funds	\$21,249,648	\$21,940,083	\$21,264,570	\$20,881,095	\$22,205,586	\$20,865,232	\$(1,340,354)	-6.0%

Local Retail Sales Tax

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



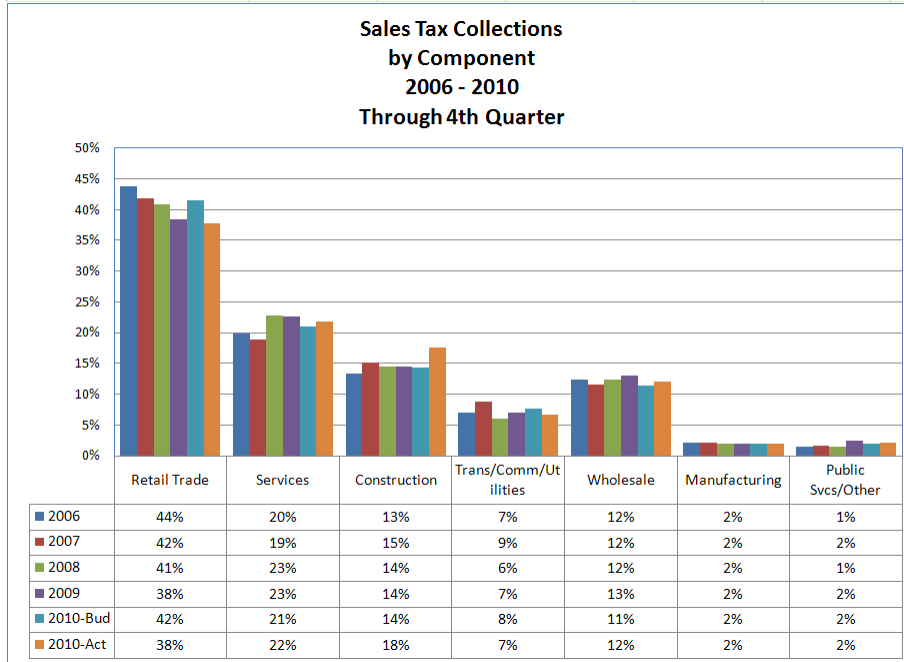
Actual sales tax proceeds through December 2010

total \$1,666,563, which is \$33,437 or 2.0% below the budget estimate (\$1,700,000). 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 in 2009 (\$1,648,902), sales tax collections have increased \$17,661 or 1.1%. However, we still lag far behind collections through year end 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	144,396	(1,233)	-0.8%
April	131,338	130,211	133,987	128,375	130,473	125,545	(4,928)	-3.8%
May	138,482	123,979	123,005	129,478	127,241	121,371	(5,870)	-4.6%
June	151,226	161,593	153,441	132,794	153,642	154,155	513	0.3%
July	138,361	126,952	139,119	132,444	131,989	140,414	8,425	6.4%
August	140,179	133,653	132,166	122,100	131,458	134,140	2,682	2.0%
September	155,523	163,049	155,999	147,461	158,845	139,862	(18,983)	-12.0%
October	129,513	134,858	137,937	131,981	132,685	132,905	220	0.2%
November	128,789	125,128	134,084	115,908	131,151	135,795	4,644	3.5%
December	187,735	157,476	206,318	225,494	194,406	193,304	(1,102)	-0.6%
Total	\$ 1,704,801	\$ 1,756,581	\$ 1,712,184	\$ 1,648,902	\$ 1,700,000	\$ 1,666,563	\$ (33,437)	-2.0%

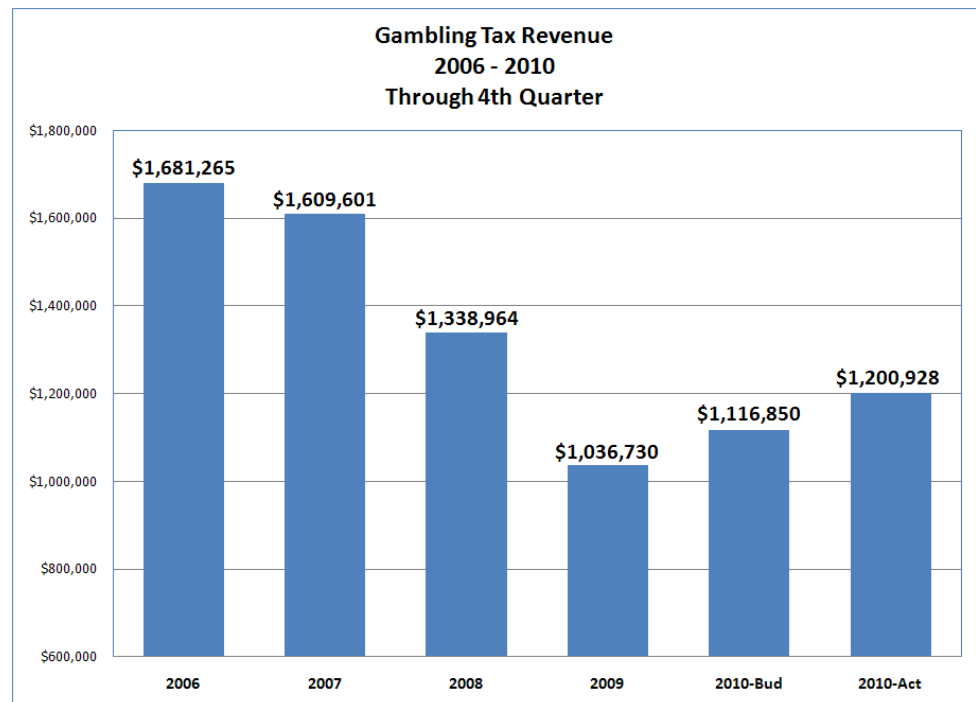
Compared to 2009, retail trade and services activity; historically the largest components of sales tax, collections decreased \$3,777 or 0.7% and \$8,881 or 2.8%, respectively. Likewise, the wholesale and transportation/communications/utilities collections also decreased \$10,552 or 5.9% and \$3,631 or 3.7%, respectively, again reflecting the weak economic climate locally, regionally and nationally. Only construction activity has increased, growing \$46,020 or 23.1%, however, this activity is cyclical in nature and recent increases are driven by public improvements (e.g., Sound Transit's Freeway Station) versus private investments, which still lag compared to historical trends.

Sales Tax Component	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
<i>Retail Sales Tax</i>								
Retail Trade	\$ 605,474	\$ 595,123	\$ 575,214	\$ 528,845	\$ 593,213	\$ 525,068	\$ (68,145)	-11.5%
Services	275,156	267,429	320,235	312,954	299,046	304,073	5,027	1.7%
Construction	185,129	214,594	203,446	199,434	204,776	245,454	40,678	19.9%
Transp/Comm/Utilities	97,981	125,150	83,766	96,852	109,967	93,221	(16,746)	-15.2%
Wholesale	171,875	164,528	174,311	178,890	163,131	168,338	5,207	3.2%
Manufacturing	28,336	30,793	28,467	27,805	29,006	26,626	(2,380)	-8.2%
Public Services	1,389	901	123	16,498	8,433	14,359	5,926	70.3%
Other	18,994	22,149	20,828	17,163	20,065	15,742	(4,323)	-21.5%
Total Retail Sales Tax	\$ 1,384,334	\$ 1,420,667	\$ 1,406,390	\$ 1,378,441	\$ 1,427,638	\$ 1,392,881	\$ (34,757)	-2.4%
<i>Criminal Justice Sales Tax</i>	320,467	335,914	305,794	270,461	272,362	273,682	1,320	0.5%
Total Sales Tax	\$ 1,704,801	\$ 1,756,581	\$ 1,712,184	\$ 1,648,902	\$ 1,700,000	\$ 1,666,563	\$ (33,437)	-2.0%

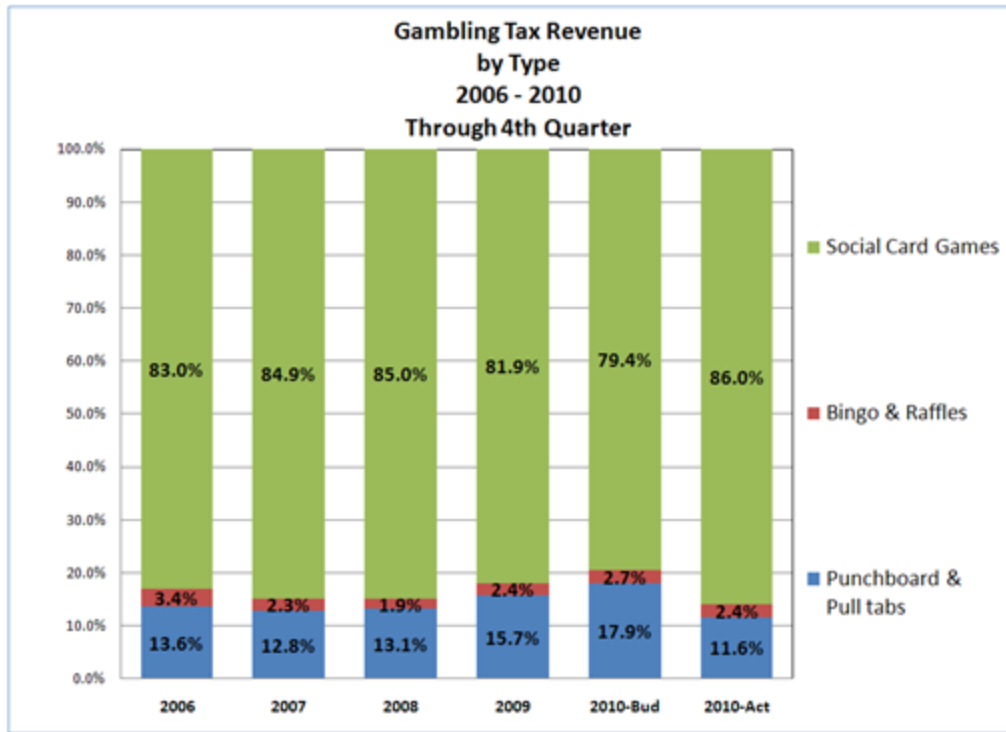


Gambling Tax

The following graphs and table summarizes gambling tax revenue collections between 2006 and 2010. Through December 2010, gambling tax collections totaled \$1,200,928, which is \$84,078, or 7.5% above the budget estimate (\$1,116,850).



Compared to 2009 activity (\$1,036,730), gambling tax collections have increased \$164,198, or 15.8%. While we are achieving our budget projections for this very volatile general fund revenue, we still lag far behind collections for 2006 through 2008.

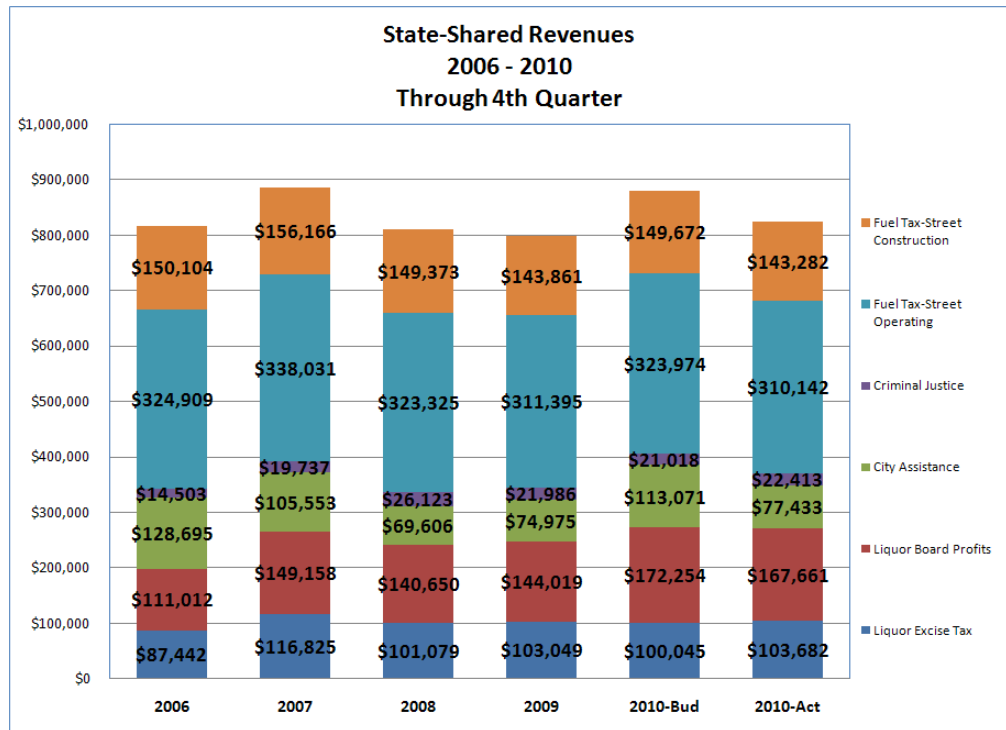


Of particular concern is the City's reliance on gambling taxes for basic municipal services – an estimated total of 8.4% of General Fund revenue and 7% of total operating revenue. Because of the uncertainty of this revenue source, as is evident by the closure of a casino in 2008 and the current economic downturn, we need to look for other revenue; otherwise municipal services will be impacted in the near future.

Gambling Taxes	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
<i>Gambling Type</i>								
Punchboard & Pull tabs (no)	\$ 77,177	\$ 93,129	\$ 80,264	\$ 58,546	\$ 100,000	\$ 53,537	\$ (46,463)	-46.5%
Punchboard & Pull tabs (co)	151,890	112,222	95,558	104,381	100,000	85,492	(14,508)	-14.5%
Bingo & Raffles	56,907	37,750	25,569	24,630	30,000	29,338	(662)	-2.2%
Social Card Games	1,395,290	1,366,499	1,137,574	849,173	886,850	1,032,561	145,711	16.4%
Total Gambling Type	\$ 1,681,265	\$ 1,609,601	\$ 1,338,964	\$ 1,036,730	\$ 1,116,850	\$ 1,200,928	\$ 84,078	7.5%
<i>Gambling Business</i>								
Crazy Moose Casino	\$ 506,751	\$ 581,554	\$ 533,919	\$ 510,738	\$ 556,000	\$ 635,524	\$ 79,524	14.3%
Red Dragon Casino	501,167	533,849	439,361	365,520	400,000	426,610	26,610	6.7%
Silver Dollar Casino	422,849	293,883	188,733	-	-	-	-	n/a
Seattle Junior Hockey	159,119	130,879	105,832	83,175	92,000	76,334	(15,666)	-17.0%
Other Restaurants, Pubs	91,379	69,436	71,119	77,297	68,850	62,460	(6,390)	-9.3%
Total Gambling Business	\$ 1,681,265	\$ 1,609,601	\$ 1,338,964	\$ 1,036,730	\$ 1,116,850	\$ 1,200,928	\$ 84,078	7.5%

State-Shared Revenues

The following graph and table presents a comparison of State-Shared revenues received between 2006 and 2010. State-shared revenues totaled \$824,613 through December 2010, which is \$55,421, or 6.3% below the budget estimate (\$880,034). The decrease is attributable to current economic conditions.



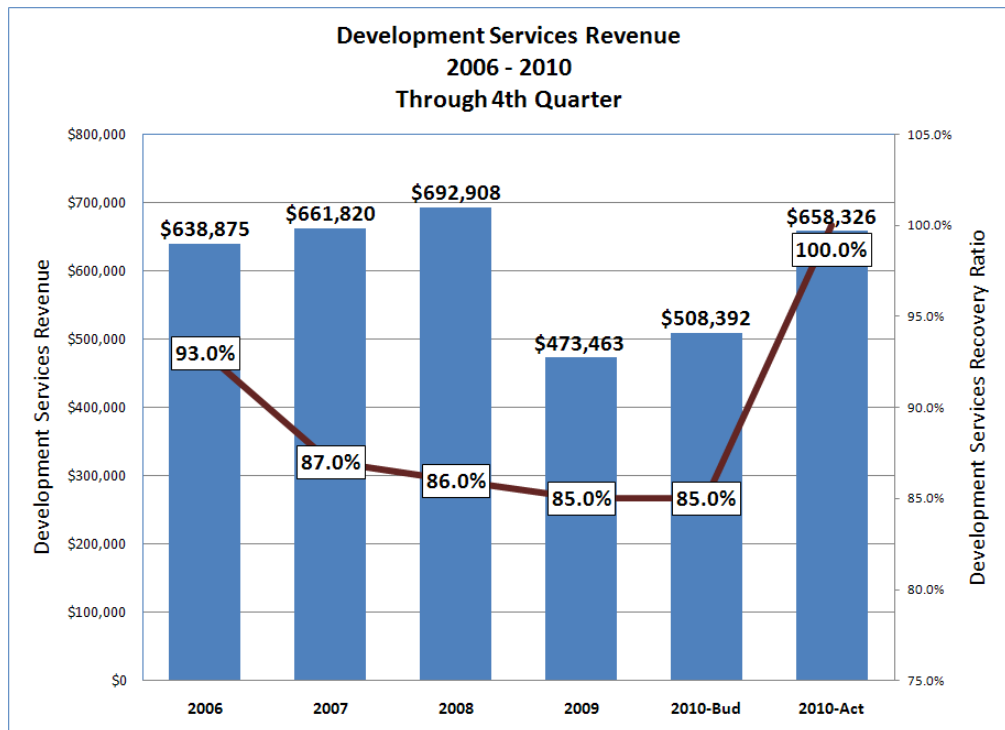
For example, City Assistance funds come from a portion of the State's real estate excise tax. The State's REET collections have been negatively impacted due to the current economic conditions – the result is less City Assistance funds. Similarly, fuel tax dollars that are required by state law to be 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 2009 activity (\$799,285) have increased \$25,328, or 3.2%, though they still lag compared to collections in 2007, which was the peak for state-shared revenue collections.

State-Shared Revenues Source	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
General Fund								
Liquor Excise Tax	\$ 87,442	\$ 116,825	\$ 101,079	\$ 103,049	\$ 100,045	\$ 103,682	\$ 3,637	3.6%
Liquor Board Profits	111,012	149,158	140,650	144,019	172,254	167,661	(4,593)	-2.7%
City Assistance	128,695	105,553	69,606	74,975	113,071	77,433	(35,638)	-31.5%
Criminal Justice	14,503	19,737	26,123	21,986	21,018	22,413	1,395	6.6%
Total General Fund	\$ 341,652	\$ 391,273	\$ 337,458	\$ 344,029	\$ 406,388	\$ 371,189	\$ (35,199)	-8.7%
Street Operating Fund								
Fuel Tax-Street Operating	324,909	338,031	323,325	311,395	323,974	310,142	(13,832)	-4.3%
Total Street Operating Fund	\$ 324,909	\$ 338,031	\$ 323,325	\$ 311,395	\$ 323,974	\$ 310,142	\$ (13,832)	-4.3%
Street Construction Fund								
Fuel Tax-Street Construction	150,104	156,166	149,373	143,861	149,672	143,282	(6,390)	-4.3%
Total Street Construction Fund	\$ 150,104	\$ 156,166	\$ 149,373	\$ 143,861	\$ 149,672	\$ 143,282	\$ (6,390)	-4.3%
Total State-Shared Revenue	\$ 816,665	\$ 885,470	\$ 810,156	\$ 799,285	\$ 880,034	\$ 824,613	\$ (55,421)	-6.3%

Development Services Fees

The following graph and table illustrate development services activity to include building permits, engineering, and plan check/zoning fee activity between 2006 and 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 December 2010 totaled \$658,326, which is \$149,934 or 29.5% above the budget estimate (\$508,392). Compared with 2009 activity (\$473,463), development services fee revenue has increased \$184,863 or 39.0%.

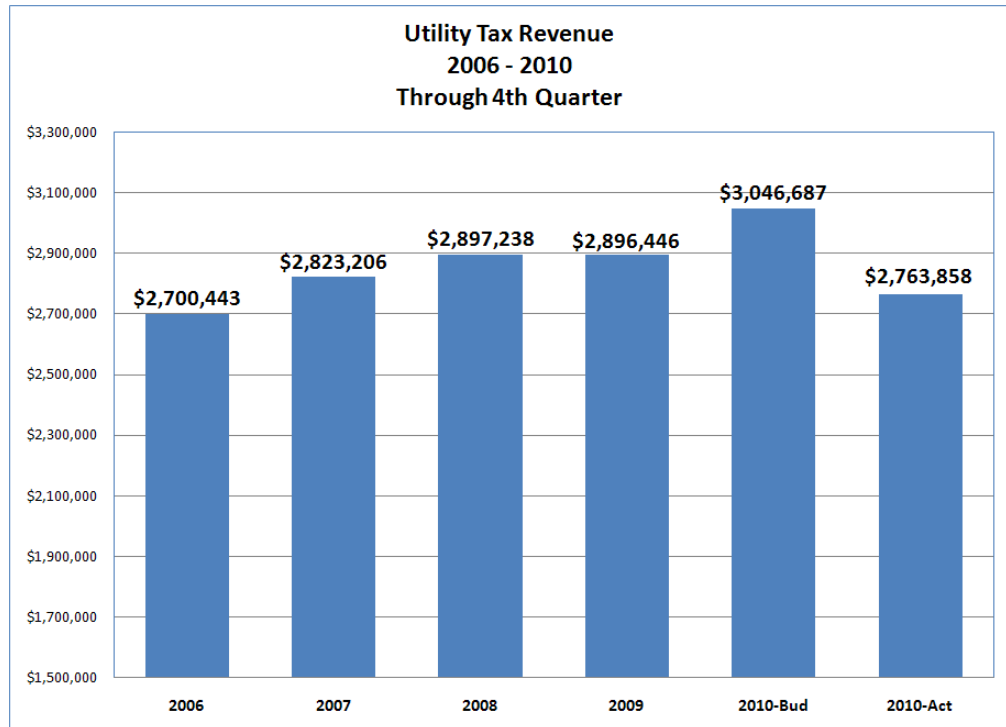
Development Services Source	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
Building Permits	\$ 262,929	\$ 244,627	\$ 162,412	\$ 188,328	\$ 200,000	\$ 304,128	\$ 104,128	52.1%
Engineering Fees	210,208	136,077	115,574	116,968	100,000	160,344	60,344	60.3%
Plan Check/Zoning Fees	165,738	281,116	414,922	168,167	208,392	193,854	(14,538)	-7.0%
Total Development Services	\$ 638,875	\$ 661,820	\$ 692,908	\$ 473,463	\$ 508,392	\$ 658,326	\$ 149,934	29.5%

In addition, our development services program is realizing expenditure savings. The Community and Economic Development Department's operating expenditures are \$244,626 or 21.2% below the estimated budget. This is further reflected by a recovery ratio of 100%.

While we had been experiencing a slowdown in development activity (and the revenue that comes with it), the upside is there are approximately 40 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 between 2006 and 2010. Through December 2010, utility tax collections totaled \$2,763,858, which is \$282,829, or 9.3% below the budget estimate (\$3,046,687). Compared to 2009 activity



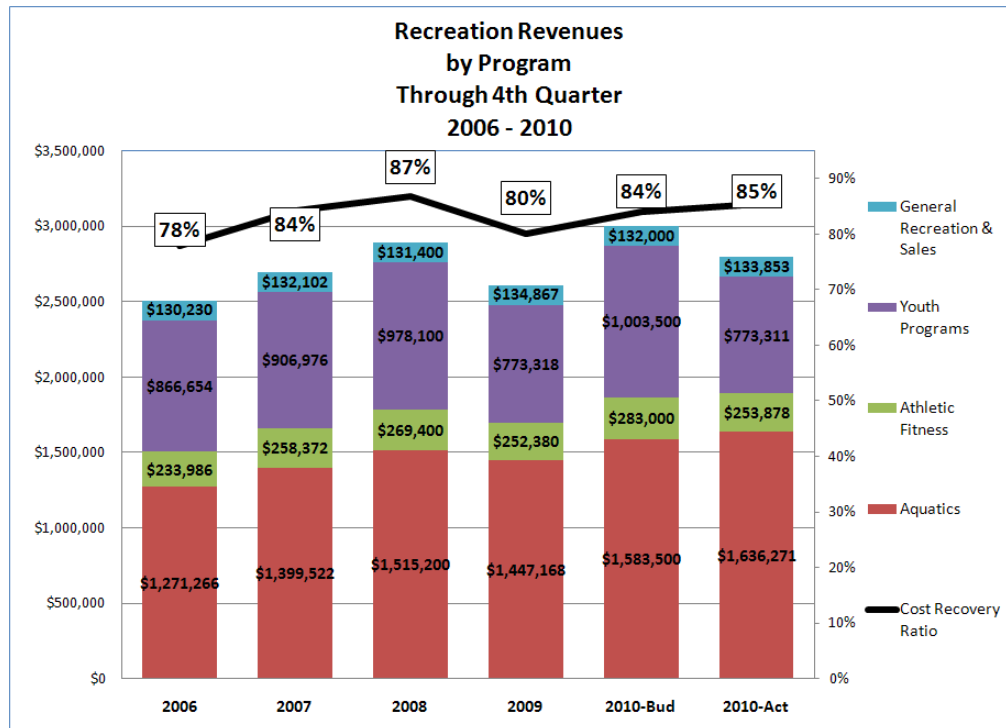
(\$2,896,446), utility tax collections have decreased \$132,588 or 4.6%, due primarily to the weak economy as well as a milder winter (January-March) that has resulted in lower gas and electric utility taxes as compared to previous years .

Utility Tax Source	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
Gas	\$ 260,768	\$ 296,667	\$ 288,312	\$ 302,201	\$ 320,875	\$ 243,189	\$ (77,686)	-24.2%
Solid Waste	209,074	201,474	249,033	251,974	260,000	242,642	(17,358)	-6.7%
Telephone	839,932	863,848	839,532	796,431	800,000	738,016	(61,984)	-7.7%
Electricity	644,955	671,094	680,818	689,114	725,855	674,179	(51,676)	-7.1%
Cable	178,069	197,128	206,072	193,938	213,214	193,319	(19,895)	-9.3%
City Utilities	567,645	592,995	633,471	662,788	726,743	672,513	(54,230)	-7.5%
Total Utility Tax Revenues	\$ 2,700,443	\$ 2,823,206	\$ 2,897,238	\$ 2,896,446	\$ 3,046,687	\$ 2,763,858	\$ (282,829)	-9.3%

Recreation Program

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

Through December 2010, recreation fee collections totaled \$2,797,313, which is \$204,687, or 6.8% below the budget estimate (\$3,002,000).



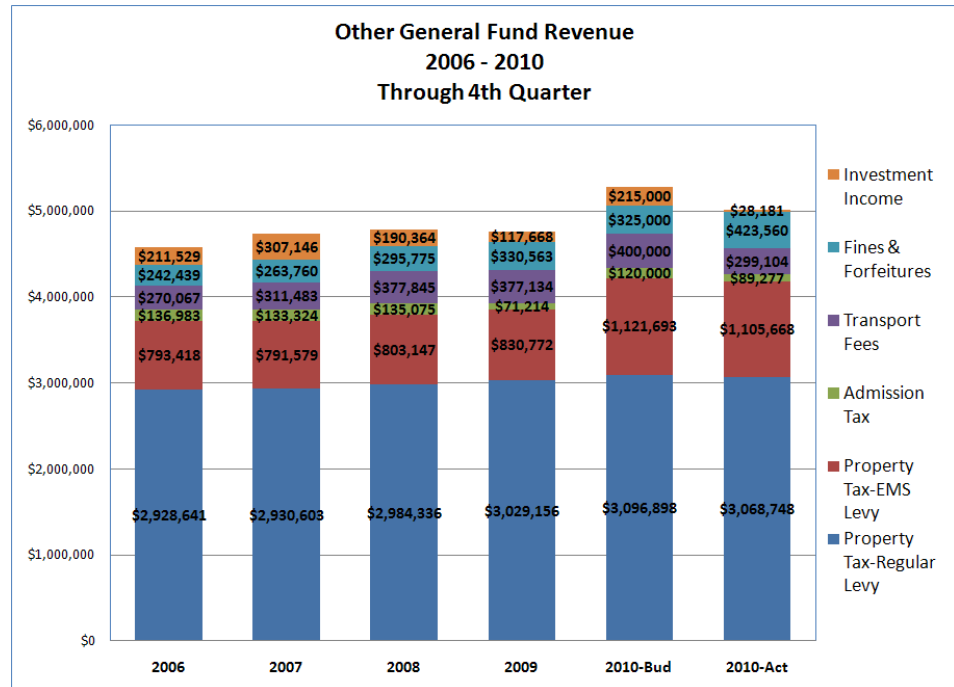
Compared to 2009 activity (\$2,607,722), recreation fee collections have increased by \$189,580, or 7.3%. This increase is most likely attributable to the recent closure of other facilities in the area coupled with clients taking advantage of our Recreation Pavilion, a locally and nationally recognized community amenity.

In addition, recreation program costs (\$3,274,232) are under the budget estimate (\$3,573,164) by \$298,932 or 8.4%, reflecting the financial prudence being practiced by the Recreation Department. The result of this is that the recreation program's cost recovery ratio is 85%, larger than most previous years.

Recreation Program Source & Uses	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
Recreation Fees								
Aquatics	\$ 1,271,266	\$ 1,399,522	\$ 1,515,200	\$ 1,447,168	\$ 1,583,500	\$ 1,636,271	\$ 52,771	3.3%
Athletic Fitness	233,986	258,372	269,400	252,380	283,000	253,878	(29,122)	-10.3%
Youth Programs	866,654	906,976	978,100	773,318	1,003,500	773,311	(230,189)	-22.9%
General Recreation & Sales	130,230	132,102	131,400	134,867	132,000	133,853	1,853	1.4%
Program Fees	\$ 2,502,136	\$ 2,696,972	\$ 2,894,100	\$ 2,607,733	\$ 3,002,000	\$ 2,797,313	\$ (204,687)	-6.8%
Recreation Program								
Aquatics	\$ 1,537,047	\$ 1,559,745	\$ 1,574,122	\$ 1,472,197	\$ 1,614,601	\$ 1,559,620	\$ (54,981)	-3.4%
Athletic Fitness	320,870	316,939	371,293	285,527	365,683	278,481	(87,202)	-23.8%
Youth Programs	1,126,510	1,115,016	1,180,220	1,290,962	1,387,887	1,228,848	(159,039)	-11.5%
General Recreation	39,015	25,353	22,624	22,205	19,993	22,283	2,290	11.5%
Debt Service	185,000	185,000	185,000	185,000	185,000	185,000	-	0.0%
Program Costs	\$ 3,208,442	\$ 3,202,053	\$ 3,333,259	\$ 3,255,891	\$ 3,573,164	\$ 3,274,232	\$ (298,932)	-8.4%
General Fund Subsidy	\$ (706,306)	\$ (505,081)	\$ (439,159)	\$ (648,158)	\$ (571,164)	\$ (476,919)	\$ 94,245	-16.5%
Cost Recovery Ratio	78%	84%	87%	80%	84%	85%	1.4%	1.7%

Other General Fund Revenue

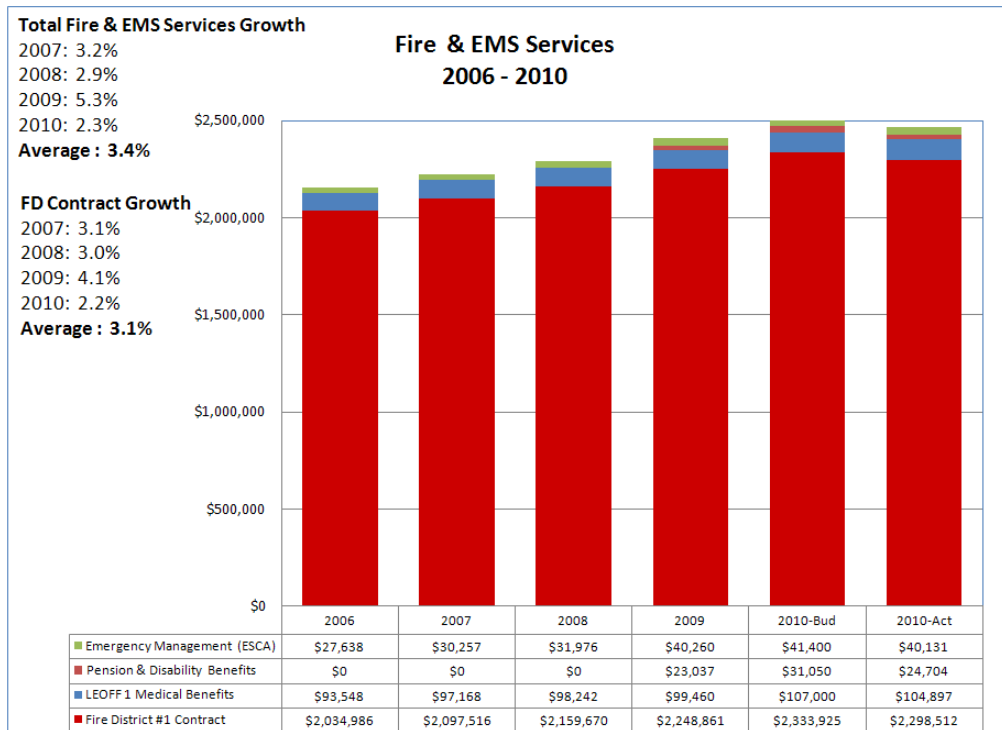
- Property tax revenues were slightly below budget, coming in at 99.0% of the estimated budget. Property taxes in 2010 have increased \$314,488 as compared to 2009 reflecting the levy approved by voters in November 2009 in support of EMS services.



- Admission taxes total \$89,277 through December 2010, which is \$30,723 or 25.6% below the adopted budget (\$120,000) and represents activity at Cinebarre, which replaced the Regal Mountlake 9 Theatre in mid-2009. Reports continue to reveal that their unique and different approach to taking in a movie has been very successful and they are enjoying much better success than the former Mountlake 9, which we anticipate will generate both admission taxes and sales tax from the food service. This is reflected in the fact that admissions taxes have increased \$18,063 or 25.4% from collections through December 2009 (\$71,214).
- Transport fees (\$299,104), which represent financial reimbursement from Medicaid, Medicare, and private insurance policies for the cost of providing medically necessary ambulance transportation is below budgetary estimates (\$400,000) by \$100,896 or 25.2%. Collections decreased from 2009 (\$377,134), primarily because Medicare lowered their reimbursement rate by about 8 percent in 2010.
- Fines and forfeitures revenues collections (\$423,560), which are comprised primarily of traffic infractions and criminal citations, are above budgetary estimates (\$325,000) by \$98,560 or 30.3%. Compared to collections through December 2009 (\$330,563), collections have increased \$92,997 or 28.1% reflecting a more proactive police presence in the community. This revenue source helps pay for municipal court and jail service costs.
- General Fund investment interest revenues total \$28,181, which is \$186,819 or 86.9% below the budget estimate (\$215,000). However, all other major funds (capital and utility) are just about meeting 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.

Fire and EMS Services

In January, 2005, the City of Mountlake Terrace entered into an interlocal agreement with Snohomish County Fire District No. 1 to provide Fire and Emergency Medical Services to our City. Fire District No. 1 is the largest provider of fire and emergency medical services in Snohomish



County, serving more than 225,000 residents in unincorporated areas and the cities of Brier, Edmonds, Mountlake Terrace and the Town of Woodway.

Fire & EMS Services Source & Uses	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
Revenues								
Property Tax-EMS Levy	\$ 793,418	\$ 791,579	\$ 803,147	\$ 830,772	\$ 1,121,693	\$ 1,105,668	\$ (16,025)	-1.4%
Transport Fees	270,067	311,483	377,845	377,134	400,000	299,104	(100,896)	-25.2%
Program Revenues	\$ 1,063,485	\$ 1,103,062	\$ 1,180,992	\$ 1,207,906	\$ 1,521,693	\$ 1,404,772	\$ (116,921)	-7.7%
Expenditures								
LEOFF 1 Medical Benefits	\$ 93,548	\$ 97,168	\$ 98,242	\$ 99,460	\$ 107,000	\$ 104,897	\$ (2,103)	-2.0%
Pension & Disability Bene	-	-	-	23,037	31,050	24,704	(6,346)	-20.4%
Emergency Management (27,638	30,257	31,976	40,260	41,400	40,131	(1,269)	-3.1%
Fire District #1 Contract								
Fire Suppression	398,721	401,182	413,959	430,392	448,008	440,730	(7,278)	-1.6%
Fire Prevention	74,386	72,251	75,144	78,109	70,884	70,884	-	0.0%
Emergency Medical Serv	1,561,879	1,624,083	1,670,567	1,740,360	1,815,033	1,786,898	(28,135)	-1.6%
Subtotal Fire District #1 C	2,034,986	2,097,516	2,159,670	2,248,861	2,333,925	2,298,512	(35,413)	-1.5%
Program Costs	\$ 2,156,172	\$ 2,224,941	\$ 2,289,888	\$ 2,411,618	\$ 2,513,375	\$ 2,468,244	\$ (45,131)	-1.8%
General Fund Subsidy	\$ (1,092,687)	\$ (1,121,879)	\$ (1,108,896)	\$ (1,203,712)	\$ (991,682)	\$ (1,063,472)	\$ (71,790)	7.2%

In April 2006, Fire Station #19 was relocated to a newly constructed facility located just north of the police station at 5902 232nd Street SW, Mountlake Terrace. Under the terms of the Agreement, the station is staffed 24 hours per day with one Fire Captain, one Firefighter/Paramedic, and one Firefighter/ Emergency Medical Technician. The Fire Chief of Fire District No. 1 is designated as the City's Fire Chief and the District also provides the City with a designated Fire Marshal. Fire District No. 1 constructed a new Fire Station #18, located at 21206 Poplar Way in Brier, which was completed in December 2010.

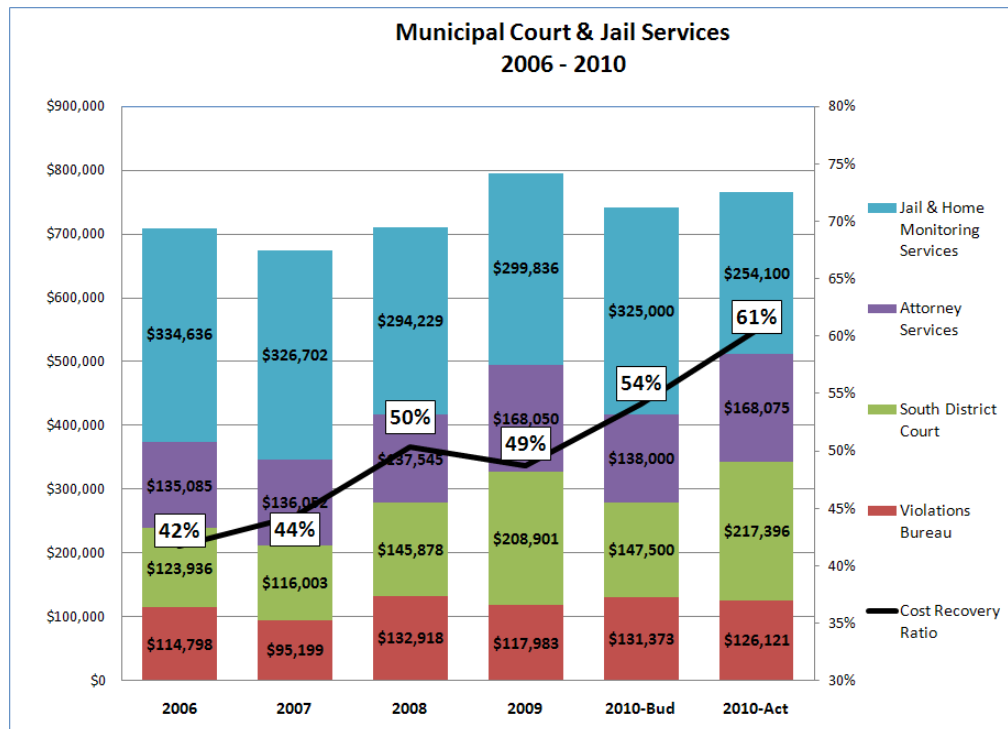
Special trained teams of firefighters also respond to hazardous materials incidents and technical rescue calls. Approximately 80% of the department calls for service are for medical aid.

	2005	2006	2007	2008	2009	Change 08/09		5-Year Average
						#	%	
Fire & EMS Response								
Fire	400	499	419	409	450	41	10.0%	435
EMS	1,614	1,596	1,700	1,765	1,694	(71)	-4.0%	1,674
Total Incidents	2,014	2,095	2,119	2,174	2,144	(30)	-1.4%	2,101
Fire	19.9%	23.8%	19.8%	18.8%	21.0%	2%	11.6%	20.6%
EMS	80.1%	76.2%	80.2%	81.2%	79.0%	-2%	-2.7%	79.4%
Total Incidents	100.0%	100.0%	100.0%	100.0%	100.0%	n/a	n/a	n/a
Response Time % within 8 minutes	91.4%	88.0%	90.0%	91.5%	90.1%	-1.4%	-1.5%	90.2%
Average response time - all calls	5:28 minutes	5:49 minutes	5:39 minutes	5:39 minutes	n/a			
Response time defined as time dispatch (SNOCOM) receives 911 call to when fire & EMS units arrive on location.								

Municipal Court & Jail Services

The Municipal Court and Jail Services program, which are partially funded with fines and forfeitures provides for the following legally mandated services:

- The City contracts with South Snohomish County District



Court for court services. The City pays filing fees for traffic and other infractions and for misdemeanor criminal citations filed in the Court for violations of state or local law, which are not felonies. The 2010 filing fee for infractions totaled \$35.89, while the filing fee for criminal misdemeanors totaled \$104.

District Court Filings	2006	2007	2008	2009	2010	Change (10 vs. 09)	
						#	%
Infraction Non-Traffic	1	1	1	4	4	0	0.0%
Infraction Traffic	1,627	1,483	1,933	2,231	2,538	307	13.8%
Criminal Non-Traffic	361	317	306	379	392	13	3.4%
Criminal Traffic	519	481	468	850	751	(99)	-11.6%
DUI	145	112	83	112	103	(9)	-8.0%
Parking	0	0	9	16	14	(2)	-12.5%
Total Cases	2,653	2,394	2,800	3,592	3,802	210	5.8%

- Prosecuting Attorney services are provided by Zachor & Thomas, Inc., P.S. who prosecutes individuals charged under the city's criminal code. This includes prosecution of infractions (when requested by the court), criminal including a special prosecutor for domestic violence cases and criminal traffic matters, which are gross misdemeanors and misdemeanors. We are one of the few cities in the region that has a standalone domestic violence prosecutor. In

addition, the prosecuting attorney provides legal assistance and advice to the police department as may be necessary to provide updates and education in the furtherance of their duties and responsibilities.

- Public Defender services are provided by Feldman & Lee who provides legal defense services to those individuals who are criminally charged and cannot afford to hire an attorney on their own. The Constitution guarantees individuals the right to have an attorney even if they cannot afford one on their own. On average, approximately 70% of public defender cases are for defendants who are charged with committing a crime in our community, but reside elsewhere.

Public Defender Cases	2006	2007	2008	2009	2010	Change (10 vs. 09)	
						#	%
City Residents	n/a	n/a	99	165	146	(19)	-11.5%
Non-city Residents	n/a	n/a	239	348	341	(7)	-2.0%
Total Cases	368	336	338	513	487	(26)	-5.1%

- The City contracts primarily with the Snohomish County Sherriff's Office and City of Lynnwood for jail services, which includes jail booking and inmate daily fees, medical and prescription needs, transporting of prisoners, and jail alternative programs such as home detention and community service that are generally paid for by the defendant.
- The City also operates a violations bureau for the processing of municipal civil infractions, traffic infraction payments, and the Hearing Examiner and Civil Hearings process.

Municipal Court & Jail Services					2010		Change (bud vs. act)	
Source & Uses	2006	2007	2008	2009	Budget	Actual	\$	%
<i>Revenues</i>								
Fines & Forfeitures								
District Court	\$ 202,847	\$ 221,763	\$ 230,899	\$ 252,072	\$ 240,000	\$ 330,245	\$ 90,245	37.6%
Tickets Paid at City	31,871	32,878	53,015	63,506	70,000	75,607	5,607	8.0%
Civil Violations	7,721	9,119	11,860	14,985	15,000	17,708	2,708	18.1%
Sub-total	242,439	263,760	295,774	330,563	325,000	423,560	98,560	30.3%
Home Monitoring Fees	53,030	34,904	62,258	56,693	76,500	39,910	-	0.0%
Total Revenues	\$ 295,469	\$ 298,664	\$ 358,032	\$ 387,256	\$ 401,500	\$ 463,470	\$ 61,970	15.4%
<i>Expenditures</i>								
Violations Bureau	\$ 114,798	\$ 95,199	\$ 132,918	\$ 117,983	\$ 131,373	\$ 126,121	\$ (5,252)	-4.0%
South District Court								
Infraction-Traffic	51,526	49,858	67,037	80,070	56,160	91,123	34,963	62.3%
Infraction-Non-Traffic	124	34	35	144	135	144	9	6.7%
Parking	124	-	312	574	135	504	369	273.3%
Criminal-Traffic	48,429	47,814	48,978	94,580	52,785	88,326	35,541	67.3%
Criminal-Non Traffic	23,657	25,474	27,200	37,334	25,785	40,872	15,087	58.5%
Interpreter Services	15,815	10,549	13,787	14,433	12,000	22,190	10,190	84.9%
Witness Fees	-	-	160	-	500	232	(268)	-53.6%
Fees from Defendants	(15,739)	(17,726)	(11,631)	(18,234)	-	(25,995)	(25,995)	n/a
Sub-total	123,936	116,003	145,878	208,901	147,500	217,396	69,896	47.4%
Attorney Services								
Prosecuting Attorney & Dom Viol Prosecutor	77,210	76,800	80,145	101,625	79,800	102,300	22,500	28.2%
Public Defender	54,000	55,200	55,200	62,400	55,200	62,400	7,200	13.0%
Conflict Public Defender	3,875	4,052	2,200	4,025	3,000	3,375	375	12.5%
Sub-total	135,085	136,052	137,545	168,050	138,000	168,075	30,075	21.8%
Jail & Home Monitoring Services								
Chelan County Jail	16,969	6,216	385	-	-	-	-	n/a
Lynnwood Jail	44,461	39,451	39,798	44,497	-	27,452	27,452	n/a
Transport Fees	10,845	13,801	14,449	13,979	-	14,739	14,739	n/a
Okanogan County Jail	5,432	-	-	-	-	-	-	n/a
Snohomish County Jail	243,287	246,693	219,670	221,976	300,000	196,305	(103,695)	-34.6%
Inmate Medical Costs	-	6,741	744	-	-	3,249	3,249	n/a
Home Monitoring Svcs	13,642	13,800	19,183	19,384	25,000	12,355	(12,645)	-50.6%
Subtotal	334,636	326,702	294,229	299,836	325,000	254,100	(70,900)	-21.8%
Total Expenditures	\$ 708,455	\$ 673,956	\$ 710,570	\$ 794,770	\$ 741,873	\$ 765,692	\$ 23,819	3.2%
General Fund Subsidy	\$ (412,986)	\$ (375,292)	\$ (352,538)	\$ (407,514)	\$ (340,373)	\$ (302,222)	\$ 38,151	-11.2%
Cost Recovery Ratio	42%	44%	50%	49%	54%	61%	6.4%	11.8%

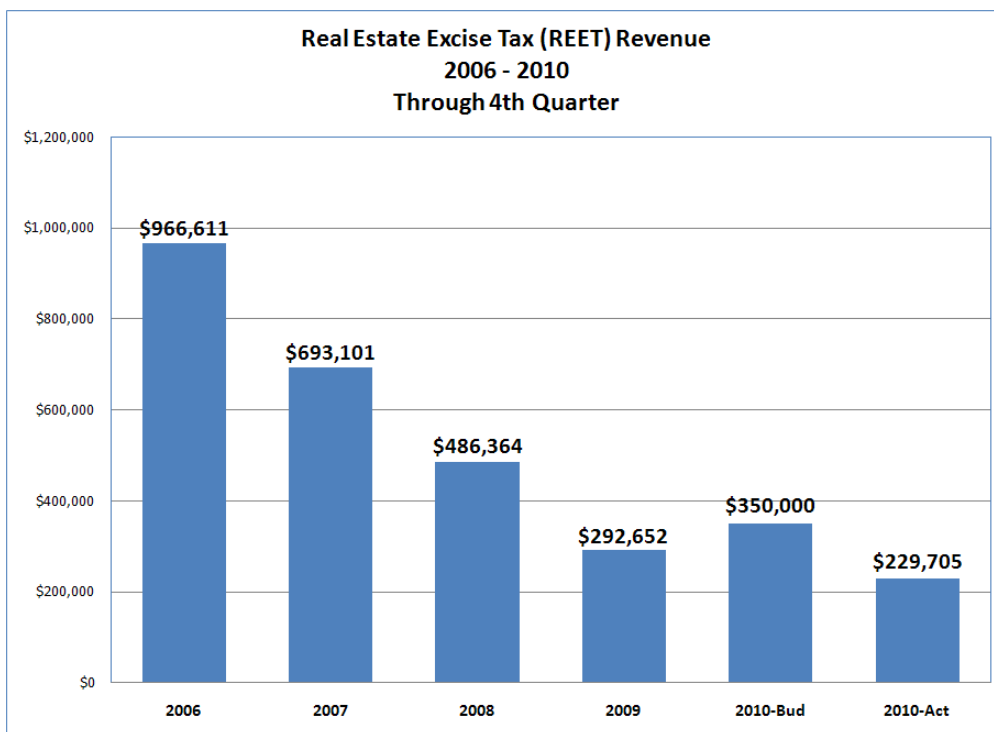
Capital Improvement Funds

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	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
Capital Improvement Funds								
Beginning Fund Balances	\$ 3,575,170	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 4,657,418	\$ 4,657,418	\$ -	0.0%
Operating Revenues								
Real Estate Excise Tax	966,611	693,101	486,364	292,652	350,000	229,706	(120,294)	-34.4%
Motor Vehicle Fuel Tax	150,104	156,166	149,373	143,861	149,672	143,282	(6,390)	-4.3%
Cable PEG Fees	16,796	16,988	16,916	21,485	17,000	17,095	95	0.6%
Transportation Impact Fees	-	-	2,334	1,081	266,400	35,359	(231,041)	n/a
Park Impact Fees	-	-	4,224	2,026	100,000	56,563	(43,437)	n/a
Investment Interest/Other	165,996	282,880	257,504	150,613	112,000	91,722	(20,278)	-18.1%
Subtotal Operating Revenue	1,299,507	1,149,135	916,715	611,718	995,072	573,727	(421,345)	-42.3%
Other Financing Sources								
Transfer In: General Fund	741,756	2,126,000	356,000	500,000	655,000	655,000	-	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	-	(95,154)	-100.0%
Transfer In: Strategic Reserve Fund	-	-	-	300,000	10,000	10,000	-	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	568,489	500,000	(68,489)	n/a
Grants	398,257	172,558	118,853	848,442	1,606,995	1,158,338	(448,657)	n/a
Subtotal Other Financing Sources	1,726,142	4,873,855	702,853	2,289,307	2,935,638	2,323,338	(612,300)	-20.9%
Total Capital Improvement Funds	\$ 6,600,819	\$10,620,305	\$ 8,361,147	\$ 8,524,161	\$ 8,588,128	\$ 7,554,482	(1,033,646)	-12.0%
Capital Program								
Overlay Program	\$ 881,419	\$ 483,158	\$ 474,248	\$ 999,768	\$ 873,492	\$ 41,337	(832,155)	-95.3%
Chip & Slurry Seal Program	211,091	155,610	236,245	191,901	293,200	305,832	12,632	4.3%
ADA Sidewalk Program	-	-	-	36,773	132,198	-	(132,198)	n/a
Traffic Calming Program	1,695	5,995	15,152	-	47,848	-	(47,848)	n/a
Bicycle Route Program	-	-	-	-	20,000	22,549	2,549	n/a
Sidewalk Program	48,175	294,480	55,067	55,611	973,272	154,860	(818,412)	-84.1%
Transportation Plan	-	75,057	-	-	-	-	-	n/a
Traffic & Signal Control Program	182,470	-	26,072	140,367	786,940	391,493	(395,447)	-50.3%
Interurban Trail Link	39	4,681	150,256	5,800	21,444	-	(21,444)	n/a
Street Reconstruction	8,145	13,659	16,960	210,784	2,763,911	1,233,931	(1,529,980)	-55.4%
Engineering Services	87,000	184,455	238,244	341,589	185,945	321,095	135,150	72.7%
Capital-Artwork	-	-	7,500	17,500	-	-	-	n/a
Capital-Information Technology	65,856	144,111	166,196	174,445	111,317	99,046	(12,271)	-11.0%
Capital-Community & Economic Develop	-	-	123,940	-	1,000	-	(1,000)	n/a
Capital-Property Management	54,870	150,881	481,385	225,504	371,319	354,127	(17,192)	-4.6%
Capital-Interim City Hall	-	-	-	399,982	573,645	545,794	(27,851)	-4.9%
Capital-Parks	-	114,128	280,419	61,757	80,000	30,510	(49,490)	-61.9%
Capital-Recreation	29,182	13,719	24,870	21,818	22,200	4,851	(17,349)	-78.1%
Capital-Police	81,226	-	71,206	60,666	86,824	92,564	5,740	6.6%
Capital-Future Investments	-	320,953	-	-	-	-	-	n/a
Subtotal Other Financing Uses	1,651,168	1,960,887	2,367,760	2,944,265	7,344,555	3,597,989	(3,746,566)	-51.0%
Transfer Out (Debt Service & CIP)	352,336	1,917,839	370,250	922,478	352,000	210,836	(141,164)	-40.1%
Total Capital Improvement Funds	\$ 2,003,504	\$ 3,878,726	\$ 2,738,010	\$ 3,866,743	\$ 7,696,555	\$ 3,808,825	(3,887,730)	-50.5%
Fund Balances								
Designated/Reserved:								
P.E.G. (Cable Fees)	\$ 32,309	\$ 37,476	\$ 47,886	\$ 63,926	\$ 80,926	\$ 81,021	95	0.1%
Transportation Impact Fees	-	-	2,334	2,334	269,815	38,774	(231,041)	-85.6%
Park Impact Fees	56,213	56,213	10,110	6,250	106,250	62,813	(43,437)	-40.9%
Capital Improvements	4,508,793	6,647,890	5,562,807	4,584,908	434,582	3,563,049	3,128,467	719.9%
Total Ending Fund Balances	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 4,657,418	\$ 891,573	\$ 3,745,657	\$2,854,084	320.1%

Real Estate Excise Taxes

The following graph and table illustrate collection history for the first and second 1/4 percent real estate excise taxes (REET). The table and graph both reflect the cyclical variation in this revenue source. Through December 2010, REET revenues (\$229,705) were under budgetary



estimates (\$350,000) by \$120,295 or 34.4%. Compared with 2009 activity (\$292,652), REET revenues have decreased \$62,947 or 21.5%. This decline is reflective of the slowing real estate market.

Real Estate Excise Tax Month	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
January	\$ 40,033	\$ 47,661	\$ 40,985	\$ 45,587	\$ 24,929	\$ 11,186	\$ (13,743)	-55.1%
February	35,329	34,742	34,647	11,905	17,995	6,579	(11,416)	-63.4%
March	65,065	61,674	34,183	15,461	24,214	21,687	(2,527)	-10.4%
April	64,087	66,041	38,536	16,750	25,292	20,069	(5,223)	-20.7%
May	67,692	88,856	128,309	16,282	40,739	22,519	(18,220)	-44.7%
June	213,025	112,523	43,814	21,106	39,454	15,572	(23,882)	-60.5%
July	135,618	72,816	33,147	47,594	43,480	26,048	(17,432)	-40.1%
August	63,927	56,712	28,679	29,321	29,820	22,654	(7,166)	-24.0%
September	72,803	41,230	47,809	24,096	29,998	18,979	(11,019)	-36.7%
October	110,243	39,594	28,369	21,299	28,853	20,955	(7,898)	-27.4%
November	51,404	43,308	12,471	28,732	24,479	10,069	(14,410)	-58.9%
December	47,385	27,944	15,415	14,519	20,747	33,388	12,641	60.9%
Total REET	\$ 966,611	\$ 693,101	\$ 486,364	\$ 292,652	\$ 350,000	\$ 229,705	\$ (120,295)	-34.4%

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

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

In addition, the City has been successful in obtaining the following federal and state funds that we have or are expected to receive in the coming year -- totals approximately \$5.2 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/McAleer Creek Watershed to develop Strategic Action Plan (SAP) in partnership with cities of Edmonds, Lake Forest Park, Lynnwood, Shoreline and Snohomish County

Town Center

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

Lakeview Trail

- \$200,000 - FY 2010 federal appropriations connecting Mountlake Terrace Transit Center at I-5/236th St West to Interurban Trail along Lakeview Drive
- \$300,000 – Congestion Mitigation and Air Quality (CMAQ) Improvement Program funding

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

School Zone Flashing Beacons

- \$7,400 – Washington State Traffic Safety Commission Funds for school zone flashing beacons at Mountlake Terrace Elementary School

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. As other opportunities arise, the City will look to align community project needs to available grant funding (i.e., CDBG, STP, PSRC, CMAQ, safe routes to schools, etc.).

Project-State Funds	Grant	Amount Requested
54 th Ave W, 220 th to 223 rd Sidewalks	Safe Routes to School (Pedestrian & Bicycle, Mobility & Safety)	\$330,000
54 th Ave W, 234 th to 236 th Sidewalks	CDBG (Public Infrastructure)	\$200,000
Lakeview Trail	STP-D (Trails)	\$200,000
228 th St SW & Cedar Way	STP (Street Overlay & Curb Ramp Upgrades)	\$635,000
48 th Ave W between 236 th and 244 th	Congestion Mitigation and Air Quality (CMAQ) – Pedestrian & Bicycle Improvements, Design & Engineering	\$180,000
TOTAL		\$1,545,000

Project-Federal Funds	Status	Amount Requested
Emergency Services Equipment	Representative Inslee has requested \$300,000 and was included in House Appropriations Subcommittee as FY 2011 request – also a FY 2012 request	\$500,000
Downtown Main Street Revitalization Project – 56 th Ave W Corridor Improvements between 230 th St SW & 236 th St SW	FY 2012 request	\$1,500,000
Storm Water Detention & Water Quality Improvements in support of Downtown, Civic Campus & Lake Ballinger/McAleeer Creek Watershed Basin	FY 2012 request	\$235,000
Energy Efficiency Projects: 1. Police station HVAC improvements; 2. Library HVAC improvements; 3. Recreation pavilion HVAC improvements; 4. Citywide street lighting; and 5. Neighborhood park lighting.	FY 2012 request	\$400,000
Safe Routes to School Sidewalk Projects: 1. 214 th St SW between 38 th Ave W and 44 th Ave W connecting to MLT high school 2. 54 th Ave W between 220 th and 223 rd connecting to Mountlake Terrace Elementary School	FY 2012 request	\$750,000
Lakeview Trail	Included in Congressional Reauthorization of the Transportation Bill (FY 2010 request)	\$1,000,000
Lake Ballinger/McAleeer Creek Watershed Basin Partnership	Representative Inslee has requested \$1.4 million as part of the WRDA	\$1,400,000
TOTAL		\$5,785,000

GRAND TOTAL	\$7,330,000
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Key Capital & Construction Investment Projects

The City continues to implement its \$83.8 million capital improvement plan for the years 2006 through 2016 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 completed in 2010 and underway in 2011.

Projects recently completed...

1. Chip Seal Program: Residential streets totaling 4.2 miles were chip sealed as part of 2010's pavement preservation program. The streets chip sealed are those within the area bounded by 219th St SW on the West, 220th on the South, 48th Avenue on the East and 56th and 212th on the North. The area of 236th Avenue between 54th and Cedar Way, a key east-west route was also included. Construction is complete.
2. 230th Street SW Reconstruction Project: The reconstruction of this roadway includes two travel lanes, two 5' wide bike lanes, 5' wide sidewalks on both sides, and an intermittent 8' wide parking lane along the street. The improvements include sidewalk ramps, drainage improvements, a revised vertical street profile (between 61st Avenue and the I-5 bridge) to improve sight distance, pavement markings, and street trees. Lastly, a water main was replaced under the roadway in accordance with the city's comprehensive water system plan.
3. 222nd Street Sidewalk Connection at Jack Long Park: The project, which began in early summer 2010 provides curbs and sidewalks along the north side of 222nd Street SW and completed 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) funded about 80% of the construction contract cost.
4. 214th & 44th Traffic Signal: The new signal, which became operational last month, 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.

Projects underway...

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 is anticipated to begin later this spring and summer. 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 later this spring and summer.

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 anticipated to begin later this spring and summer.
8. 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 three adjacent projects, a culvert removal project, sewer main replacement project and water main upgrade project that will benefit the Water, Sewer and Storm Water Utilities.

The Hall Creek Culvert Removal and Stream Restoration will reduce localized flooding during large storm events by removing the four undersized culverts under the 230th Street SW crossing of the creek. Once the culverts and the short segment of roadway above them are removed, this area will be restored to become an open flowing creek and natural aquatic habitat. 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 construction of a pedestrian bridge, and accommodating a vehicle turnaround for 230th Street SW.

The Ballinger Lake Golf Course Sewer Replacement is a companion project located just east of the culvert removal site. The project will reconstruct the sewer main across the golf course parking lot between Lakeview Drive and east side of Hall Creek. The existing sewer main is underlain by soft unstable soils and has settled over the past 40 years. High levels of maintenance are needed to maintain flow capacity in this main. 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 this summer.

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 (\$135,000), was 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.

In addition, UIG and Rubenius US have expressed an interest in exploring an opportunity to form a citywide Energy Efficiency District that could increase both energy efficiency and economic development. This opportunity is consistent with the Sustainability Strategy adopted by the City Council in 2008 that establishes goals and strategies for ensuring community livability together with resource conservation, environmental protection and economic vitality.

A presentation is scheduled for City Council’s April 14, 2011 work/study session to provide information about how the City could participate in a future Energy Efficiency District to include the review of a proposed Resolution memorializing its interest in participating in an Energy Efficiency District through a public-private partnership. The proposed Resolution speaks to “exploring” and is not a final commitment to “establish” such a district. The City’s role would be to provide in-kind resources (but not tied to any specific levels or products) and no direct funding. The Energy Efficiency Development District is intended to provide leadership on achieving greater energy efficiency, to encourage sustainable development, and to implement projects that will benefit from the unique assets of public and private partners.

- b) Energy-Efficient Transportation Choices Project -- this project, funded by the Washington State Department of Commerce under the American Recovery Reinvestment Act (\$75,000), 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. On April 4, the City Council adopted an Electric Vehicle Strategy to plan for future electric vehicle needs—the first such strategy by a jurisdiction in Snohomish County. The Electric Vehicle Strategy, which was grant funded, envisions that market demand for electric vehicles will significantly increase in the future. Electric vehicles are quiet, efficient, and economical to fuel with clean energy. The biggest issue for their widespread use is the lack of infrastructure to support charging them. The Electric Vehicle Strategy identifies several strategies to support two key goals. The first goal is to encourage locating electric vehicle infrastructure so that it is convenient for users within Mountlake Terrace. The second is to include electric vehicles in the city’s fleet as suitable models and resources become available.
- c) Transfer of Development Rights (TDR) Program -- In 2010, the City of Mountlake Terrace was selected by the Washington State Department of Commerce for grant funding through the U.S. Environmental Protection Agency for a Transfer of Development Rights (TDR) grant program. The grant amount of \$100,000 was awarded to the City to create a TDR program that will demonstrate innovative ways to transfer development rights within a city that does not have rural or resource lands nearby. To be selected, the City of Mountlake Terrace prepared a competitive application and was one

of ten projects chosen in the region. On April 4, 2011, the City Council approved a professional services agreement with Jones & Stokes Associates, of ICF Consulting Group, for completion of an environmental impact statement (EIS) related to a possible Transfer of Development Rights (TDR) program. Completion of an EIS is an integral part of developing the TDR program. This EIS will supplement the original Town Center EIS completed in 2007. Even without a TDR program, the EIS will be useful in considering future development.

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 Utility

The city's Storm Water Utility maintains and operates the natural and developed storm and surface water conveyance system. This utility ensures that the natural and developed storm water systems protect water quality, enhance habitat, control flooding, and comply with State and Federal requirements.

Storm Water operating revenues are under budgetary estimates by \$90,360 or 6.8% through December 2010 while operating expenditures are under budgetary estimates by \$17,272 or 1.5% due primarily to higher than anticipated maintenance costs.

Extra emphasis will be placed on storm water quality issues in 2011 and 2012 in response to regulatory requirements now in place through 2012 with the National Pollution Discharge Elimination System (NPDES) Phase II permit issued by the Washington State Department of Ecology. Permit activities include public education and outreach, inspection of commercial and multifamily housing sites for proper operation and maintenance of storm water treatment and control facilities, identification of illicit discharges to the storm water system, spill clean-up response and management of water quality monitoring programs.

Water Utility

The city's Water Utility provides drinking water to nearly 6,000 residential and business customers within Mountlake Terrace. The City purchases water wholesale from the Alderwood Water and Wastewater District, which receives the water from the City of Everett. All of the water in our system is regularly monitored to ensure it meets State and Federal standards for health and safety.

Water operating revenues are under budgetary estimates by \$132,566 or 4.5% through December 2010 while operating expenditures are below budgetary estimates by \$182,842 or 7.2% due primarily to lower than anticipated maintenance costs.

Beginning in 2011, a system-wide water meter replacement is planned along with a conversion to an automatic meter reading (AMR) system. AMR will enable water meter to be read via a radio signal rather than by an individual employee, which in turns reduces errors and allows for real-time leak detection. The AMR project, along with other utility projects planned for the

next two years, is being funded by water and sewer revenue bond (loan) that was issued last August at a very low interest rate of 3.48% over 20 years. This attractive rate was a result of the city's high "AA" bond rating from Standard and Poor's rating agency, which indicates the city is a quality borrower with very strong capacity to meet its financial commitments.

Sewer Utility

The city's Sewer Utility provides uninterrupted sewer service to residents and businesses. There are approximately 70 miles of sewer mains, 30 miles of laterals, four lift stations and 1,400 sewer maintenance access points in the city. Sewage is treated in Edmonds, where Mountlake Terrace is a part owner of the wastewater treatment plant. Smaller amounts of wastewater flow to King County METRO via Brier and Shoreline.

Sewer operating revenues are under budgetary estimates by \$43,360 or 1.4% through December 2010, while operating expenditures are under budgetary estimates by \$283,816 or 9.8% due primarily to lower than anticipated maintenance costs.

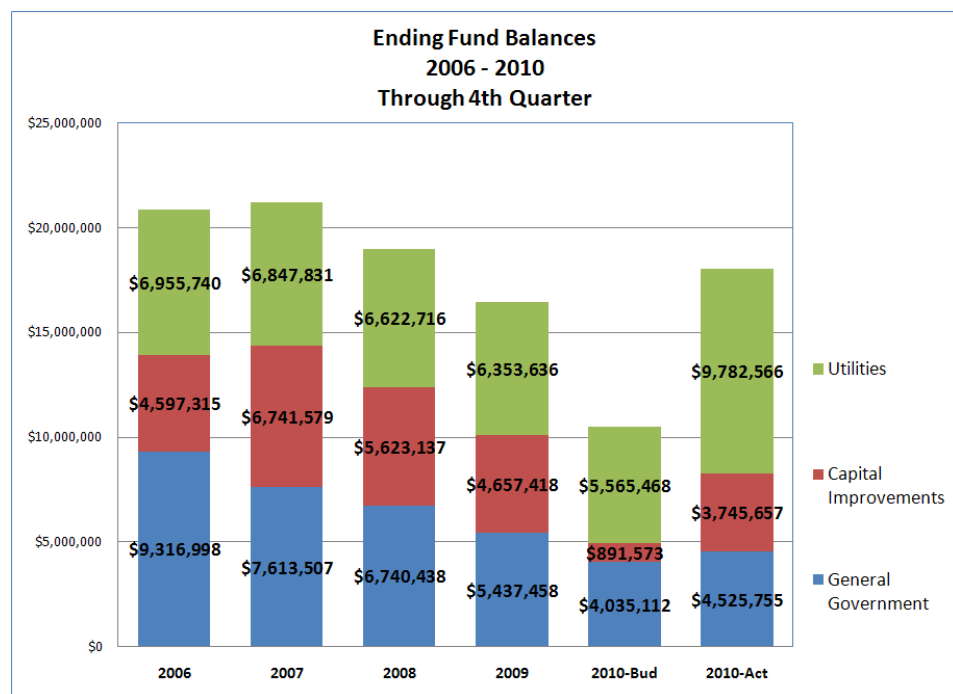
Sources & Uses Utility Funds	2006	2007	2008	2009	2010		Change (bud vs. act)	
					Budget	Actual	\$	%
Beginning Fund Balances	\$7,286,594	\$6,847,767	\$6,936,129	\$6,622,716	\$6,353,636	\$ 6,353,636	\$ -	0.0%
Operating Revenues								
Storm Water	917,421	931,680	1,018,450	1,142,696	1,334,173	1,243,813	(90,360)	-6.8%
Water	2,651,866	2,529,983	2,755,605	2,799,047	2,937,010	2,804,444	(132,566)	-4.5%
Sewer	2,889,815	2,812,790	3,056,971	3,028,233	3,151,254	3,107,894	(43,360)	-1.4%
Subtotal Operating Revenues	6,459,102	6,274,453	6,831,026	6,969,976	7,422,437	7,156,151	(266,286)	-3.6%
Operating Expenditures								
Storm Water	847,183	906,074	909,589	1,049,582	1,189,979	1,172,707	(17,272)	-1.5%
Water	2,327,798	2,309,016	2,273,928	2,446,738	2,523,688	2,340,846	(182,842)	-7.2%
Sewer	2,317,565	2,445,042	2,606,838	2,597,915	2,891,640	2,607,824	(283,816)	-9.8%
Debt Service	105,010	105,687	88,882	120,860	120,400	122,452	2,052	1.7%
Subtotal Operating Expenditures	5,597,556	5,765,819	5,879,237	6,215,095	6,725,707	6,243,829	(481,878)	-7.2%
Operating Surplus (Deficit)	861,546	508,634	951,789	754,881	696,730	912,322	215,592	30.9%
Other Financing Sources								
Grants and PWTFL	-	291,200	162,622	476,152	521,000	145,504	(375,496)	-72.1%
Loan Proceeds	-	-	-	-	6,000,000	6,280,000	280,000	4.7%
Transfer from Utility Funds	1,717,093	3,301,158	4,852,924	120,860	120,400	122,452	2,052	1.7%
Subtotal Other Financing Uses	1,717,093	3,592,358	5,015,546	597,012	6,641,400	6,547,956	(93,444)	-1.4%
Other Financing Uses								
Construction Projects	1,300,197	904,846	1,516,706	1,620,973	8,126,298	4,031,348	(4,094,950)	-50.4%
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	8,126,298	4,031,348	(4,094,950)	-50.4%
Fund Balances								
Reserves (15% of Oper Exp)	-	-	913,941	964,409	990,796	918,207	(72,589)	-7.3%
Designated/Reserved:								
Storm Water	1,704,626	1,514,300	1,098,414	1,052,415	1,780,088	2,423,909	643,821	36.2%
Water	2,951,524	3,260,139	2,576,703	2,350,158	1,664,412	4,003,509	2,339,097	140.5%
Sewer	2,148,133	2,073,392	2,033,658	1,986,654	1,130,172	1,978,516	848,344	75.1%
Debt Service	151,457	-	-	-	-	458,425	458,425	n/a
Total Ending Fund Balances	\$6,955,740	\$6,847,831	\$6,622,716	\$6,353,636	\$5,565,468	\$ 9,782,566	\$4,217,098	75.8%

Ending Fund Balances/Reserves

The following graph and table illustrates the City's ending fund balances between 2006 and 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	\$ 697,653	\$ (35,390)	-4.8%
Strategic Reserve (5% of GF Oper Exp)	916,507	959,753	995,309	720,800	740,800	727,160	(13,640)	-1.8%
Reserved/Designated								
Encumbrances	402,437	179,672	185,553	532,789	404,498	503,208	98,710	24.4%
Equipment Replacement & Reserve	2,294,889	2,307,593	2,345,407	1,584,367	910,567	1,008,393	97,826	10.7%
Hotel/Motel-Tourism	35,922	32,907	34,979	30,178	22,798	19,360	(3,438)	-15.1%
Solid Waste-Billing Exemptions	58,359	61,628	40,531	27,686	9,760	9,786	26	0.3%
Accumulated Leave Reserve	761,751	283,723	234,381	241,340	253,340	246,857	(6,483)	-2.6%
Subtotal Reserved/Designated	5,164,633	4,497,659	4,565,685	3,819,287	3,074,806	3,212,417	137,611	4.5%
Contingency (2% of GF Oper Exp)	-	-	-	-	293,217	293,217	-	0.0%
Designated Reserved (one-time)	4,152,365	3,115,848	2,174,753	1,618,171	667,089	1,020,121	353,032	52.9%
Total General Government	\$ 9,316,998	\$ 7,613,507	\$ 6,740,438	\$ 5,437,458	\$ 4,035,112	\$ 4,525,755	\$ 490,643	12.2%
<i>Capital Improvement</i>								
Reserved/Designated								
P.E.G. (Cable Fees)	32,309	37,476	47,886	63,926	80,926	81,021	95	0.1%
Transportation Impact Fees	-	-	2,334	2,334	269,815	38,774	(231,041)	-85.6%
Park Impact Fees	56,213	56,213	10,110	6,250	106,250	62,813	(43,437)	-40.9%
Capital Improvements	4,508,793	6,647,890	5,562,807	4,584,908	434,582	3,563,049	3,128,467	719.9%
Total Capital Improvement	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 4,657,418	\$ 891,573	\$ 3,745,657	\$2,854,084	320.1%
<i>Utilities</i>								
Reserves (15% of Oper Exp)	-	-	913,941	964,409	990,796	918,207	(72,589)	-7.3%
Designated/Reserved:								
Storm Water	1,704,626	1,514,300	1,098,414	1,052,415	1,780,088	2,423,909	643,821	36.2%
Water	2,951,524	3,260,139	2,576,703	2,350,158	1,664,412	4,003,509	2,339,097	140.5%
Sewer	2,148,133	2,073,392	2,033,658	1,986,654	1,130,172	1,978,516	848,344	75.1%
Debt Service	151,457	-	-	-	-	458,425	458,425	n/a
Total Utilities	\$ 6,955,740	\$ 6,847,831	\$ 6,622,716	\$ 6,353,636	\$ 5,565,468	\$ 9,782,566	\$4,217,098	75.8%
Total Ending Fund Balances	\$20,870,053	\$21,202,917	\$18,986,291	\$16,448,512	\$10,492,153	\$18,053,978	\$7,561,825	72.1%

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 third quarter 2010.

Reserved/Designated Ending Fund Balances: The first component of ending fund balances, totaling \$4,525,755 at the end of 2010, are those moneys that have been earmarked for a strategic reserve fund (\$727,160), equipment replacement reserves (\$1,008,393), accumulated leave reserves (\$246,857), and General Fund reserves totaling 5% of operating expenditures (\$697,653). This reserve designation also include encumbrances from prior and current year (\$503,208), funds dedicated solely for tourism purposes (\$19,360), and solid waste billing exemptions (\$9,786).

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.

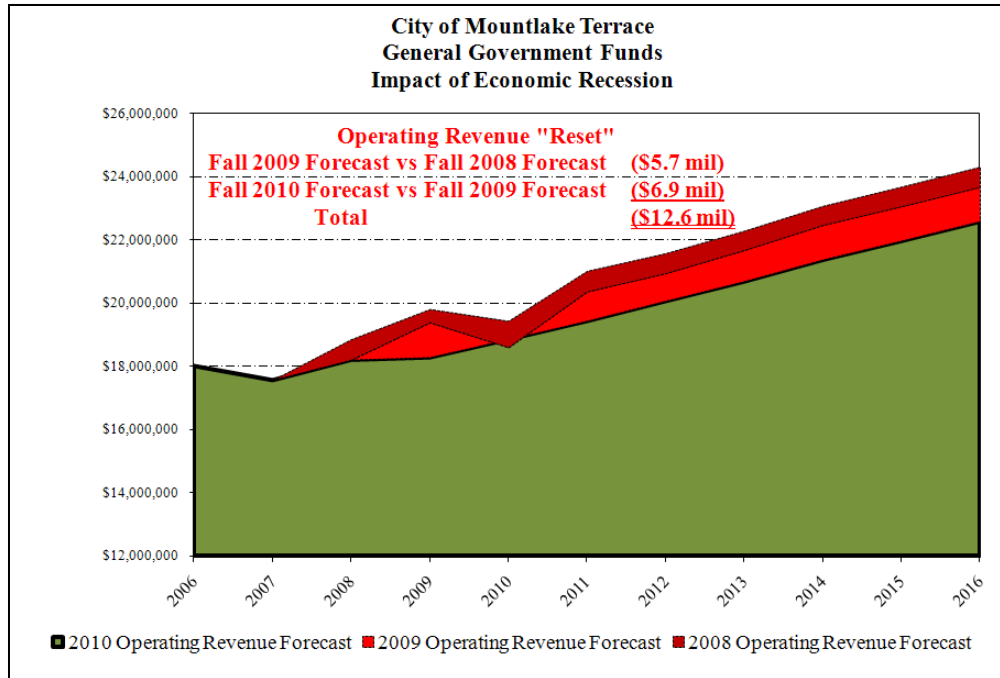
Also included in reserved/designated ending fund balances are operating reserves for the three utility funds that total 15% of total operating expenditures (\$918,207) in the funds as well as utility funds reserved for construction projects (\$8,405,934) and debt service (\$458,425). All Capital (\$3,745,657) and Utility Construction Fund balances (\$8,405,934) are reserved for capital (e.g., street, transportation, parks, recreation, public safety, IT) and utility construction projects (e.g., water, sewer, stormwater) and cannot be used for operations.

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

Reserved/Designated Fund Balances (one-time general government): The reserved/designated fund balance is the balance of net financial resources that are available for appropriation. This portion of funding is not legally restricted and is available to the Council for one-time appropriation only and cannot be used for ongoing operations. Reserved/designated fund balances (\$1,020,121) in the General Fund through the end of 2010 are over the budget estimate (\$667,089) by \$353,032 or 52.7%. These funds, which are set aside for future one-time capital investments and other one-time projects between 2011 and 2016, are consistent with the City's 6-year financial forecast. These funds are not available for ongoing programs and services funded as part of the six-year financial forecast.

Action Strategies and Preventative Measures Implemented

The 2009-2010 Biennial Budget adopted by Council in November 2008 was prepared and finalized before the full impact of the financial and credit market crisis was known. The adopted budget projected General Fund revenues to increase 1.7 percent in 2009 and 2.9 percent



in 2010, meaning we have significantly tightened our budget to ensure we live within our means. Despite the budget's conservative assumptions for revenue growth in 2009 and 2010, the current economic crisis caused us to make our new forecast, which was updated first in October 2009 and then again in October 2010 even more conservative. The current financial forecast as compared to the 2008 forecast shows a loss in general government revenue totaling \$12.6 million.

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

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

- As part of the mid-biennial budget process in late 2009, revenue estimates beginning in 2010 have been adjusted downward to reflect current economic conditions.
- All discretionary spending has been eliminated, incurring costs related to basic services only (e.g., employee compensation; mandated training & certifications; basic services such as park maintenance, public safety, code enforcement, code compliance, ROW maintenance, & street sweeping; and community outreach and information such as newsletter, website, news releases).

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

The result is that all employees moved to AWC's "HealthFirst" insurance plan on January 1, 2011 in an effort to save money. Over 160 City employees are eligible for health insurance provided through the Association of Washington Cities (AWC). AWC has announced that the current health insurance plan will be ended in 2012 due to its high cost.

- 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, 2011, 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 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 -- Fourth Quarter 2010 Financial Report Detail
- Attachment B – Fourth Quarter 2010 Performance Measures