

MEMORANDUM

TO: City Council

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

DATE: December 5, 2011

SUBJECT: **Quarterly Financial Report & Performance Measures
Third Quarter -- January through September 2011**

Overview

This report is intended to provide an overview of financial activity that has taken place from January 1, 2011 through September 30, 2011. The City's finances are divided into three key components: General Government Funds, Capital Improvement Funds and Utility Funds. Within these three components, the financial report focuses mainly on activity incurred in the following areas: General, Street and Recreation Funds as well as the City's Capital Improvement Funds, Utility Funds, and Ending Fund Balances/Reserves.

The "Summary of Sources and Uses" (Attachment A) captures financial activity by fund through September 2011. This report includes all of the City's 15 funds, as well as the beginning and ending fund balances of each fund and historical detail back to 2006. The report also reflects the 2011 budget amendments that were considered and adopted by the Council in May, 2011. Attachment B details performance measurement activity for the years 2006 through 2011.

In summary, third quarter 2011 was another successful quarter for the City of Mountlake Terrace, both from an operational perspective and a financial one, reflecting sound financial and management policies practiced by the City.

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

Overall, most financial projections are tracking consistent with the 2011 budget and the six-year financial forecast, though considerable concerns remain including the lack of a sustainable economic recovery for the foreseeable future. The continued weakness in the housing market, anemic job growth, and weak consumer confidence have created concerns that economic recovery is years away.

Mountlake Terrace Received High Credit Rating

In a report issued on August 4, 2010, Standard & Poor's (S&P) 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 among other things the City Council's quarterly review of finances, which 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. This standard has continued since S&P's review a year ago.

Annual Audit

The Washington State Auditor's Office (SAO) completed the city's 2010 audit with an exit conference on August 24, 2011. Washington law requires the State Auditor to audit all levels of local government on a regular basis. The city received a clean audit opinion for 2010. The financial report concludes that the city continues to maintain a strong financial position. The annual audit also included a review of the city's 2010 Comprehensive Annual Financial Report (CAFR), which was submitted to the Government Financial Officers Association (GFOA) for review and consideration of the Certificate of Achievement for Excellence in Financial Reporting.

The CAFR provides detailed information on the city's finances and operations beyond what is required by the State and those, required as part of "generally accepted accounting principles" (GAAP). The result 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 CAFRs. The Certificates of Achievement 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.

2011/2012 Adopted Biennial Budget Award

In July, the Government Finance Officers Association (GFOA) awarded the City of Mountlake Terrace its Distinguished Budget Presentation Award for the preparation of the 2011/2012 Adopted Biennial Budget. The award reflects the ongoing and continued commitment of the City Council and city personnel to meeting the highest principles of governmental budgeting, financial accountability and financial integrity.

In order to receive the budget award, the City had to satisfy nationally recognized guidelines for effective budget presentation. These guidelines are designed to assess how well an entity's budget serves as: 1) a policy document; 2) a financial plan; 3) an operations guide; and 4) a communication device.

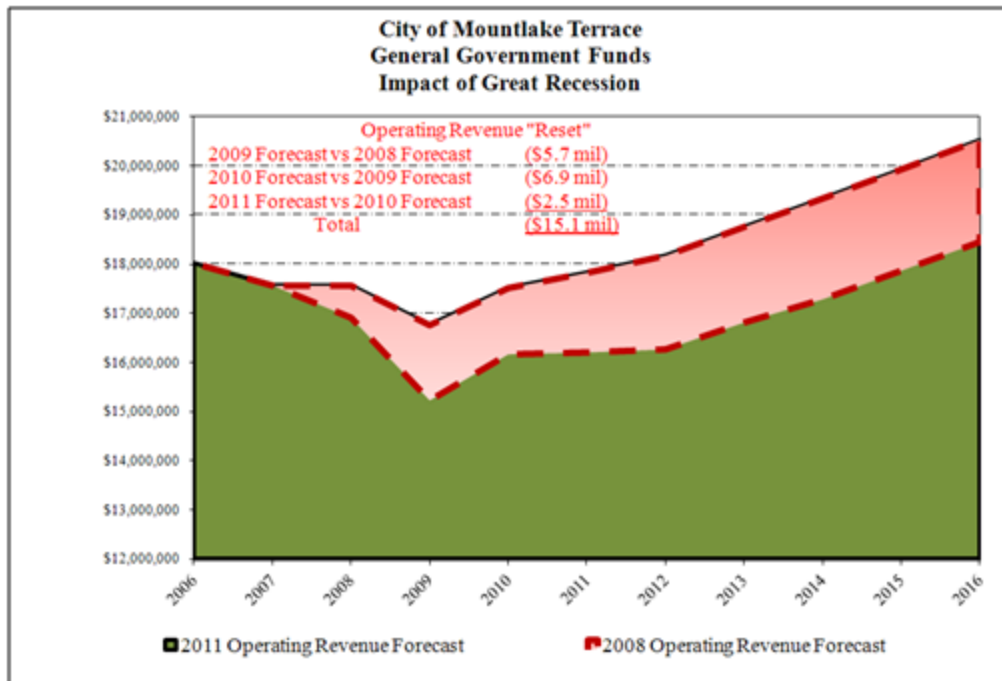
Our budget was rated "Outstanding" as a Policy Document, which of the four areas is the most important and generated the following comments:

- "The City's Strategic Management Plan focuses on economic development, capital infrastructure improvements, and overall fiscal stability. Overall this is an exemplary Policy Plan presentation."
- "The Department Directors have clear direction from the elected officials. Service delivery improvements are monitored to assure they are meeting the strategic plan prescribed."
- "Coordination between and among the policy decision makers and the administrative staff is apparent. The elected officials and management have clearly developed organization-wide policy goals that will lead the City into the next decade."
- "The policy initiatives are monitored by the elected officials and adjustment to the policy goals when necessary are executed. Overall this is a proficient presentation that will lead the City into the next decade with a strategic management plan this will produce improvements to City services and overall quality of life for the citizens."

For budgets including fiscal periods 2010, 1,250 entities of approximately 36,010 nationwide have received the Distinguished Budget award. In Washington State, the City of Mountlake Terrace is one of only 32 of 281 cities to receive the award. Award recipients have pioneered efforts to improve the quality of budgeting and provide an excellent example for other governments throughout North America. This award along with our Certificates of Achievement for Excellence in Financial Reporting further illustrates the City's commitment to the highest financial integrity, accountability and reporting for its citizens.

Executive Summary

We have now endured almost four years (December 2007 to September 2011) of the most difficult financial times in generations. Overall, 2011 general government operating revenues (\$17.8 million) are estimated to be \$1.6 million or 8.3% below



what was estimated just a few years ago (\$19.4 million). For 2012 through 2016, the decrease in general government revenues ranges from \$1.9 million and \$2.1 million annually or on average 9.5%.

General Government Operating Revenues						
	2011	2010	2009	2008	Change 2008 vs 2011	
	Forecast	Forecast	Forecast	Forecast	\$	%
2008	\$17,562,446	\$17,562,446	\$17,562,446	\$18,211,174	-\$648,728	-3.6%
2009	\$16,761,584	\$16,761,584	\$17,866,835	\$18,288,499	-\$1,526,915	-8.3%
2010	\$17,514,734	\$18,274,351	\$18,021,247	\$18,857,816	-\$1,343,082	-7.1%
2011	\$17,824,718	\$17,853,408	\$18,784,352	\$19,440,510	-\$1,615,792	-8.3%
2012	\$18,171,573	\$18,557,279	\$19,436,825	\$20,072,871	-\$1,901,298	-9.5%
2013	\$18,754,785	\$19,085,224	\$20,077,138	\$20,693,640	-\$1,938,855	-9.4%
2014	\$19,332,975	\$19,667,533	\$20,770,668	\$21,378,965	-\$2,045,990	-9.6%
2015	\$19,923,029	\$20,255,059	\$21,352,247	\$21,977,576	-\$2,054,547	-9.3%
2016	\$20,522,378	\$20,853,435	\$21,950,110	\$22,592,948	-\$2,070,570	-9.2%
					-\$15,145,777	-8.3%

Yet, the good news for the City of Mountlake Terrace is that once again we have achieved our financial and operational objectives for yet another quarter; albeit by a very small amount with a general fund operating surplus totaling \$45,137 or 0.4% (see page 6). This is a reminder that 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.

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. We continue with our proactive approach on controlling costs since revenue collections are not expected to increase or recover anytime in the near future.

The need for creative solutions will continue because the pressure on municipal finances is unlikely to abate soon. It may take a decade or more for local government finances to return to some level of certainty and even then it is unlikely that it will return to the vibrant form of the mid-2000's in the foreseeable future.

The City continues to proactively pursue and obtain state and federal funding to upgrade our aging infrastructure. This includes an aggressive approach in capital infrastructure investments to include streets, parks, sidewalks, facilities, utilities and open space areas. The City Council recognizes that the City cannot afford to stop investing in its infrastructure because doing so will cause an increase in decay and decline. Doing so will not only result in an attractive community, but a community that is open and attractive to private investment and capital.

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 our commercial areas and the Town Center. This new development will generate additional property and sales taxes, which in turn reduce what residents have to pay locally. The current level of development activity in our city, even in an economic downturn as severe as this one, reflects very positively upon our community.

The result of this is that the City has been able to maintain and in some areas increase the delivery of municipal services provided to the community. For example, we have the highest number of positions filled in years, which has in turn resulted in increased levels of service across all city departments. We are experiencing limited employee turnover, primarily because both public and private agencies are shedding employees, not adding them. This in turn has resulted in a minimal impact on city's financial resources in terms of recruitment and training; increased level of service provided to community; increased organizational productivity; and increased opportunity for expansion of job opportunities and responsibilities.

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.

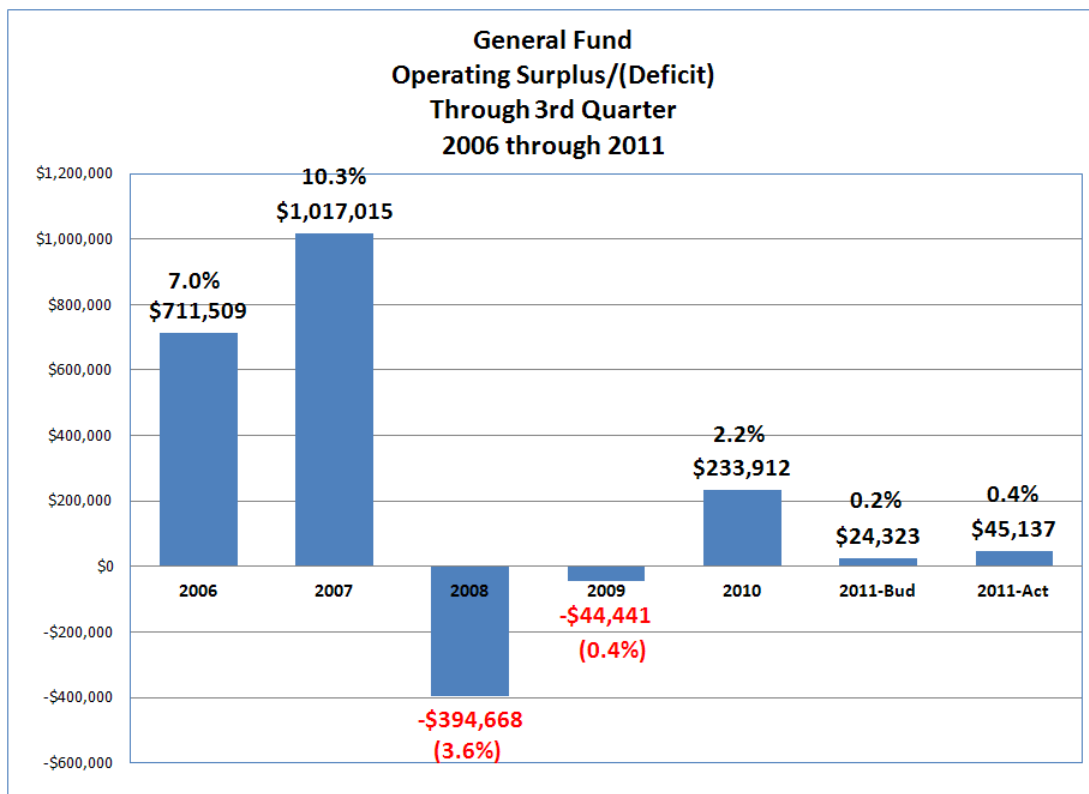
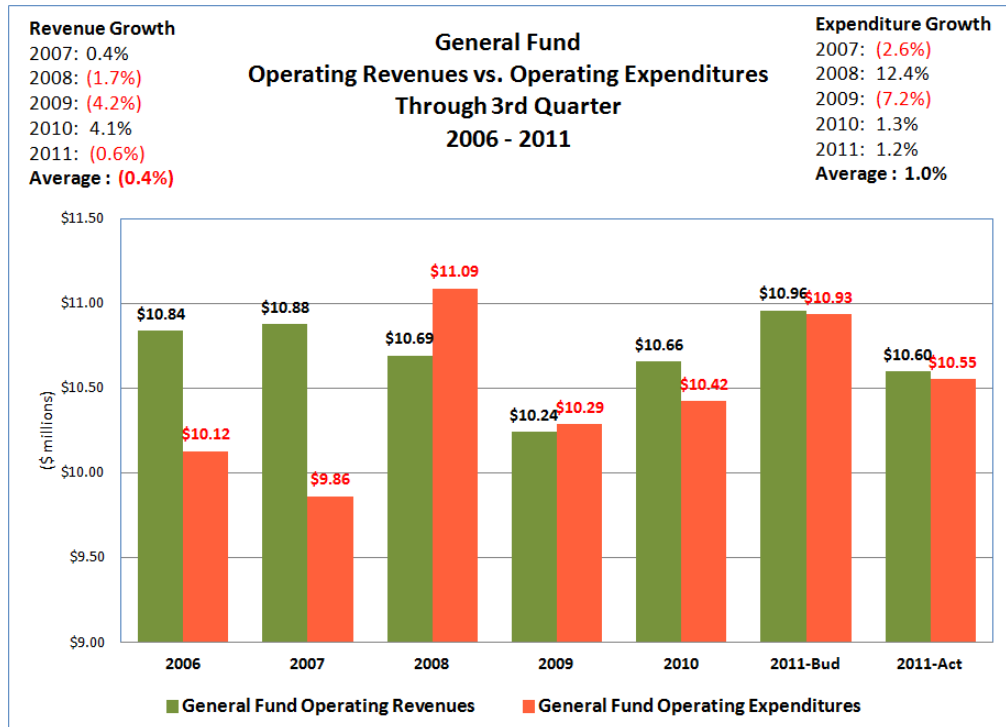
The City of Mountlake Terrace's effectiveness in managing its financial resources during one of the most difficult economic times in several generations can be seen in our: balanced budget; 6-year financial forecast; ability to maintain current levels of service; an aggressive and proactive capital improvement plan; strong reserves; implementation of sound financial policies; and the implementation of creative solutions to ensure we live within our means – all of this is a positive reflection upon our organization.

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. These steps will continue to ensure services to our residents will not have to be reduced or eliminated. In short, we expect to keep a tight rein on operating costs in the years ahead.

General Government Funds

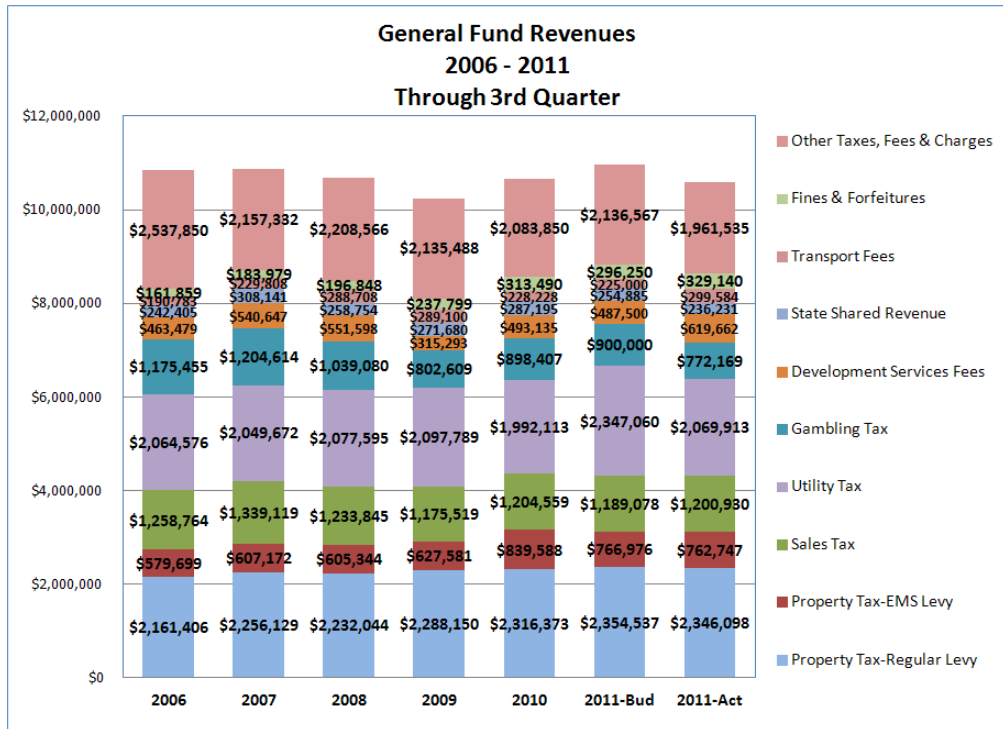
General Government Funds, which account for municipal services such as police, jail, court, fire, EMS, streets, parks, recreation, land use and zoning, planning, development services, economic development, debt service, and general administration such as finance,

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



Revenues

Overall, General Fund operating revenues (\$10,598,009) collected through third quarter 2011 is below the budget estimate (\$10,957,851) by \$359,842 or 3.3%. This is due primarily to most major operating revenue sources, specifically property taxes, utility taxes, gambling taxes and state-shared



revenues, continuing to fall short of projections as a result of the dire economic conditions that continue to impact local government finances. Given these revenue sources comprise a significant portion of general fund financial resources, we have and will continue to offset these shortfalls with operating department expenditures savings. In total, general government revenues (\$12,961,370) are below the budget estimate (\$13,356,750) by \$395,380 or 3.0%.

Resources by Fund General Government	2006	2007	2008	2009	2010	2011			Change (bud vs. act)	
						Budget	3rd Quarter	Actual	\$	%
Beginning Fund Balances	\$ 9,464,261	\$ 9,329,323	\$ 7,613,507	\$ 6,740,438	\$ 5,437,458	\$ 4,525,756	\$ 4,525,756	\$ 4,525,756	\$ -	0.0%
General										
Property Tax	3,722,059	3,722,182	3,787,483	3,859,928	4,174,416	4,162,017	3,121,513	3,108,845	(12,668)	-0.4%
Sales Tax	1,704,801	1,756,581	1,712,184	1,648,902	1,666,568	1,629,846	1,189,078	1,200,930	11,852	1.0%
Utility Tax	2,700,443	2,823,206	2,897,238	2,896,446	2,763,858	3,129,413	2,347,060	2,069,913	(277,147)	-11.8%
Gambling Tax	1,681,265	1,609,601	1,338,964	1,036,730	1,200,928	1,200,000	900,000	772,170	(127,830)	-14.2%
Other Taxes	141,588	138,687	138,814	75,458	90,847	88,000	66,000	87,764	21,764	33.0%
Business & Animal Licenses	127,184	139,758	151,698	103,870	111,256	140,000	105,000	93,366	(11,634)	-11.1%
Development Services Fees	638,875	661,820	515,504	556,047	658,326	650,000	487,500	619,662	132,162	27.1%
Cable & Solid Waste Franchise Fees	431,546	466,090	666,366	427,758	527,672	532,907	399,680	422,137	22,457	5.6%
State Shared & Intergov't	569,274	521,996	532,413	487,837	532,494	631,318	473,489	331,191	(142,298)	-30.1%
Transport Fees	270,067	311,483	377,845	377,134	299,104	300,000	225,000	299,584	74,584	33.1%
Fines & Forfeitures	242,439	263,760	295,775	330,563	423,560	395,000	296,250	329,140	32,890	11.1%
Other Fees & Charges	2,411,950	1,769,874	1,734,268	1,882,852	1,899,687	1,746,376	1,309,782	1,253,893	(55,889)	-4.3%
Investment Income	211,529	307,416	190,364	117,668	28,181	50,000	37,500	9,414	(28,086)	-74.9%
Total General Fund Operating Revenues	14,853,020	14,492,454	14,338,916	13,801,193	14,376,897	14,654,877	10,957,851	10,598,009	(359,842)	-3.3%
Street Operating	367,879	379,475	358,187	343,282	328,652	331,527	248,645	248,536	(109)	0.0%
Recreation	2,583,003	2,502,136	2,696,972	2,607,733	2,797,313	2,860,005	2,145,004	2,108,620	(36,384)	-1.7%
Debt Service	201,204	192,197	168,371	9,376	11,872	7,000	5,250	6,205	955	18.2%
Total General Govt Operating Revenues	18,005,106	17,566,262	17,562,446	16,761,584	17,514,734	17,853,409	13,356,750	12,961,370	(395,380)	-3.0%
Other Financing Sources										
Strategic Reserve	35,297	43,246	35,556	25,492	16,360	31,000	23,250	9,381	(13,869)	-59.7%
Fleet Management	769,249	775,957	825,413	727,802	704,208	739,780	462,363	450,716	(11,647)	-2.5%
Hotel/Motel Tax	26,775	21,985	27,072	23,304	18,942	17,000	12,750	12,857	107	0.8%
Solid Waste Service	17,500	17,500	-	17,500	17,500	25,000	18,750	18,750	-	0.0%
Accumulated Leave Reserve	29,337	21,972	10,226	6,959	5,517	12,500	9,375	3,224	(6,151)	-65.6%
General	438,680	209,110	98,938	40,077	236,071	20,000	15,000	72,608	57,608	384.1%
Street Operating	542,851	247,918	476,132	427,100	477,934	488,709	366,532	281,340	(85,192)	-23.2%
Recreation	604,854	696,617	682,363	622,229	488,915	589,712	442,284	386,874	(55,410)	-12.5%
Debt Service	628,825	623,700	637,407	846,613	395,836	445,078	333,809	333,809	-	0.0%
Fleet Management	3,911	-	35,948	79,455	77,512	6,500	4,875	10,881	6,006	123.2%
Total Other Financing Sources	3,097,279	2,658,005	2,829,055	2,816,531	2,438,795	2,375,279	1,688,987	1,580,440	(108,547)	-6.4%
Total All General Government Funds	\$30,566,646	\$29,553,590	\$28,005,008	\$26,318,553	\$25,390,987	\$24,754,444	\$19,571,494	\$19,067,566	\$ (503,928)	-2.6%

Most operating revenue sources...
 property taxes, utility taxes,
 gambling taxes and state-shared revenues, continue to fall short of projections...

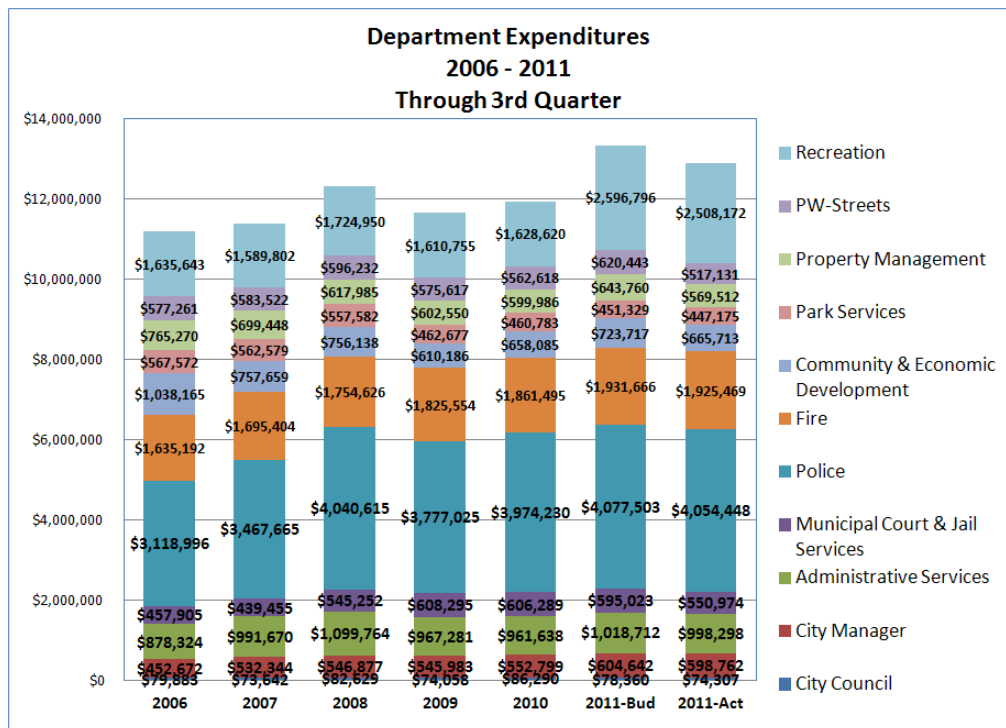
Compared with 2010 collections (\$10,656,938), general fund operating revenue collections have decreased \$58,929 or 0.6%. This decrease is a reflection of the continued decline of the economy locally, regionally, nationally and internationally. This downward trend is expected to continue for the next decade given any meaningful economic recovery is years away. The continued decline of the City's major revenue sources such as property taxes, utility taxes, gambling taxes, and state-shared revenues are cause for concern given these revenue sources represent a significant portion of the

funding available to finance basic municipal services such as police, jail, court, fire, EMS, streets, parks, recreation, development services and economic development.

Total general government sources (\$19,067,566) are below the budget estimate (\$19,571,494) by \$503,928 or 2.6%. This shortfall is offset by general government expenditures savings totaling \$588,520 or 3.8%. The lower than anticipated collections to the Fleet Management, Street Operating, and Recreation Funds under other financial sources is reflective of the cost savings being generated by these respective city departments. This results in a lower than projected General Fund transfers to those funds. The Recreation Pavilion, buoyed by a combination of increased fees and cost savings achieved a cost recovery totaling 84% through third quarter 2011 resulting in a reduced General Fund transfer totaling \$55,410 (excludes required debt service payment). The Public Works Department, which includes Fleet Management achieved General Fund cost savings totaling \$96,838. These examples, which we know are not sustainable long-term have helped offset the ongoing decrease in General Fund revenue collections.

Expenditures

General Fund operating expenditures (\$10,552,872) through third quarter 2011 are below the budget estimate (\$10,933,528) by \$380,656 or 3.5%, which offsets the lower than anticipated general government revenue collections. Likewise, total general government



expenditures (\$13,716,579) are below the budget estimate (\$14,289,171) by \$572,592 or 4.0%, which also offsets the lower than anticipated general government revenue collections,

specifically property taxes, utility taxes, gambling taxes, and state-shared revenues. Compared with 2010 general fund expenditure activity (\$10,423,026), operating expenditures have increased \$129,846 or 1.2%, attributable primarily to increased employee health care and pension costs, which are increasing at double-digit rates.

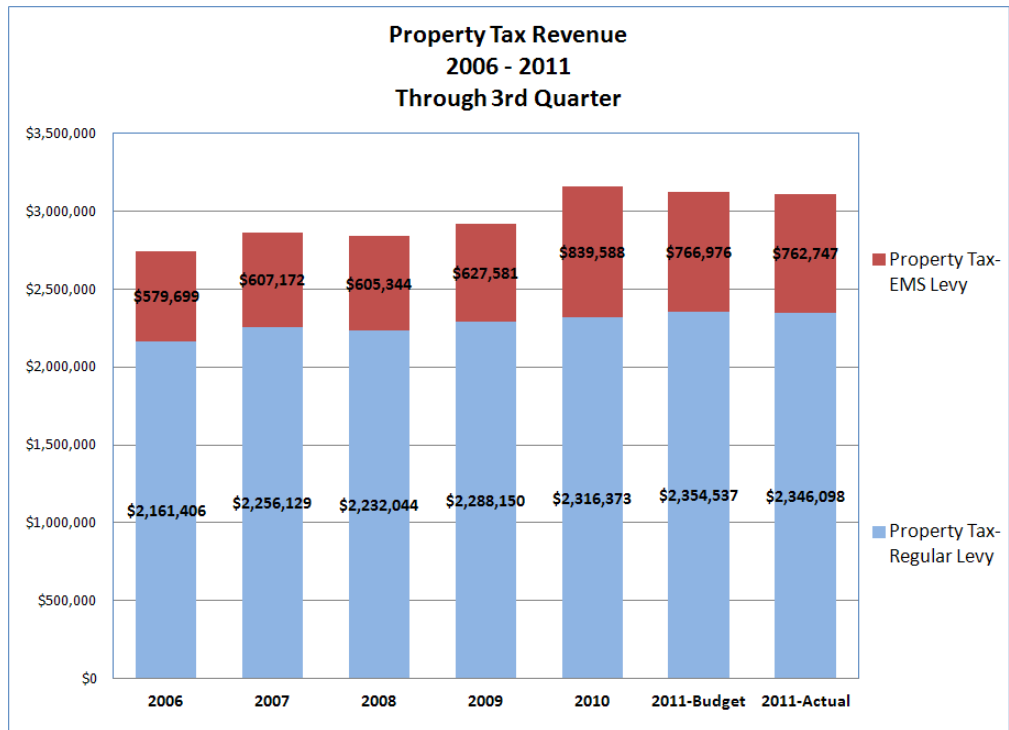
Through September 2011, all city departments are within their allocated 2011 budgets. Operating transfers to the Street Operating Fund and Recreation Fund, coupled with Fleet Management Fund expenditures, are also below budget. These savings are attributable to the continued and ongoing financial prudence being practiced by our department directors and employees that includes the elimination of discretionary spending such as supplies, travel, training, overtime, equipment, temporary help, and non-essential positions. The result is that while our major revenue collections continue to slow, 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.

Through 3rd quarter 2011, all city departments are within their allocated 2011 budgets.

Expenditures by Fund General Government	2006	2007	2008	2009	2010	2011			Change (bud vs. act)	
						Budget	3rd Quarter	Actual	\$	%
General										
City Council	incl with CM	\$ 96,659	\$ 104,753	\$ 92,979	\$ 97,464	\$ 104,480	\$ 78,360	\$ 74,307	\$ (4,053)	-5.2%
City Manager		707,667	671,925	719,173	696,687	713,474	726,808	604,642	598,762	(5,880) -1.0%
Administrative Services		1,269,046	1,374,134	1,460,074	1,331,808	1,313,125	1,358,282	1,018,712	998,298	(20,414) -2.0%
Municipal Court & Jail Services		708,455	673,956	710,570	794,770	765,692	793,364	550,974	550,974	(44,049) -7.4%
Police		4,285,179	4,527,696	5,171,253	4,996,051	5,326,137	5,436,671	4,077,503	4,054,448	(23,055) -0.6%
Fire		2,156,172	2,224,941	2,289,888	2,411,618	2,468,244	2,558,498	1,931,666	1,925,469	(6,197) -0.3%
Community & Economic Development		1,437,758	1,034,661	1,038,427	831,051	908,806	1,033,882	723,717	665,713	(58,004) -8.0%
Park Services		772,235	688,783	752,220	630,125	607,401	601,772	451,329	447,175	(4,154) -0.9%
Property Management		1,074,654	910,583	860,196	808,120	785,874	858,347	643,760	569,512	(74,248) -11.5%
Oper Transfer Out-Debt Svc		336,489	296,450	310,157	-	-	-	-	-	- n/a
Oper Transfer Out-Streets		542,851	247,918	476,132	427,100	477,934	488,709	366,532	281,340	(85,192) -23.2%
Oper Transfer Out-Recreation		419,854	511,617	497,363	437,229	303,915	404,712	303,534	248,124	(55,410) -18.3%
Oper Transfer Out- Rec Debt Svc		185,000	185,000	185,000	185,000	185,000	185,000	138,750	138,750	- 0.0%
Total General Fund		13,895,360	13,444,323	14,575,206	13,642,538	13,953,066	14,550,525	10,933,528	10,552,872	(380,656) -3.5%
Operating Surplus/(Deficit)		957,660	1,048,131	(236,290)	158,655	423,831	104,352	24,323	45,137	20,814 n/a
Street Operating		905,215	808,987	825,968	777,237	804,343	827,257	620,443	517,131	(103,312) -16.7%
Recreation		3,208,442	3,202,052	3,333,259	3,255,891	3,274,231	3,462,395	2,596,796	2,508,172	(88,624) -3.4%
Debt Service		823,478	822,448	805,778	454,965	460,849	520,679	138,404	138,404	- 0.0%
Total General Government Funds		18,832,495	18,277,810	19,540,211	18,130,631	18,492,489	19,360,856	14,289,171	13,716,579	(572,592) -4.0%
Other Financing Uses										
Fleet Management		628,542	763,253	823,547	1,568,298	1,357,694	663,053	494,795	487,011	(7,784) -1.6%
Hotel/Motel Tax		19,302	25,000	25,000	28,105	29,760	23,000	21,608	21,608	- 0.0%
Solid Waste Service		25,199	14,231	21,097	30,345	35,400	34,500	25,875	27,467	1,592 6.2%
Accumulated Leave Reserve		-	500,000	59,568	-	-	-	-	-	- n/a
General		1,324,703	2,359,789	795,147	823,716	939,889	1,161,218	791,658	791,658	- 0.0%
Strategic Reserve		419,407	-	-	300,000	10,000	25,000	18,750	9,015	(9,735) -51.9%
Other Financing Uses		2,417,153	3,662,273	1,724,359	2,750,464	2,372,743	1,906,771	1,352,686	1,336,759	(15,927) -1.2%
Total All General Government Funds		\$21,249,648	\$21,940,083	\$21,264,570	\$20,881,095	\$20,865,232	\$21,267,627	\$15,641,858	\$15,053,338	\$ (588,520) -3.8%

Property Tax Revenue

Property tax revenues collections are estimated to come in slightly below budget. However, property taxes begin decreasing significantly in 2012 and beyond reflecting the decrease in property values brought on by current economic conditions.

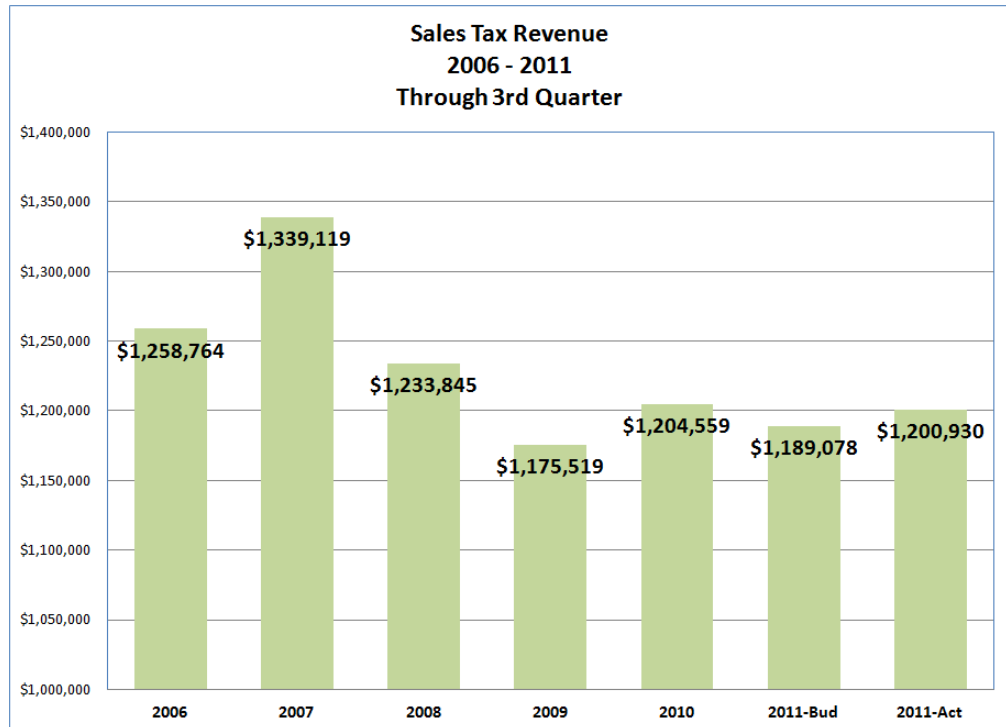


	2006	2007	2008	2009	2010	2011		Change (bud vs. act)	
						Budget	Actual	\$	%
Property Tax-Regular Levy	\$2,161,406	\$2,256,129	\$2,232,044	\$2,288,150	\$2,316,373	\$2,354,537	\$2,346,098	(8,439)	-0.4%
Property Tax-EMS Levy	\$579,699	\$607,172	\$605,344	\$627,581	\$839,588	\$766,976	\$762,747	(4,229)	-0.6%
	2,741,105	2,863,301	2,837,388	2,915,731	3,155,961	3,121,513	3,108,845	(12,668)	-0.4%

	Property Tax-Regular Levy	Property Tax-EMS Levy	Total Levy
2007	4.4%	4.7%	4.5%
2008	-1.1%	-0.3%	-0.9%
2009	2.5%	3.7%	2.8%
2010	1.2%	33.8%	8.2%
2011	1.3%	-9.2%	-1.5%

Local Retail Sales Tax

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

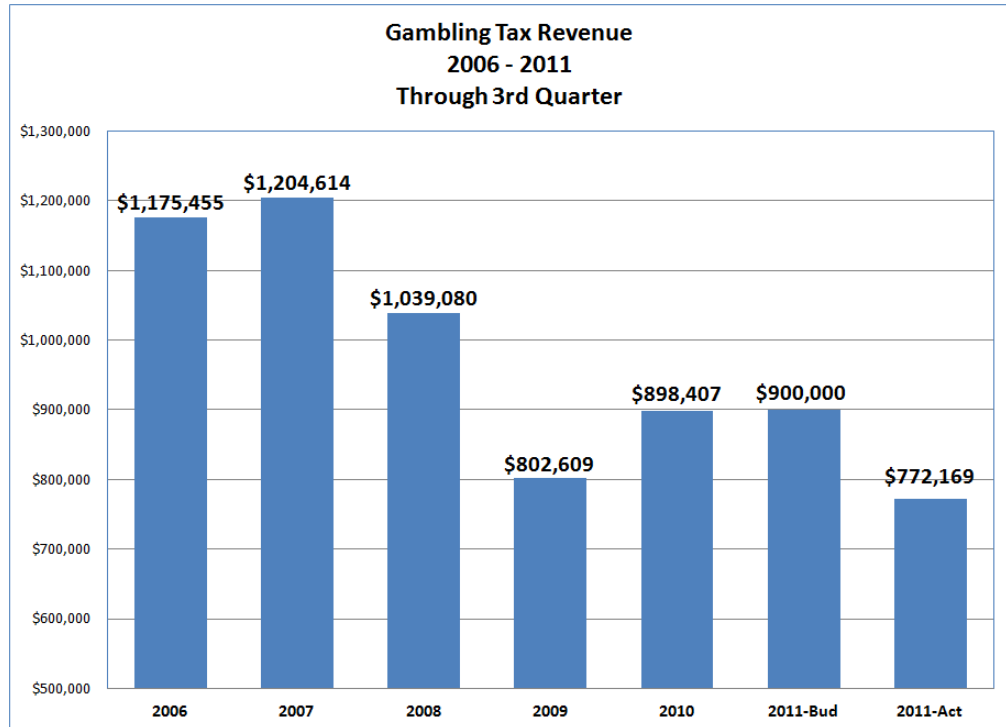


Actual sales tax proceeds through August 2011 with an estimate for September 2011 total \$1,200,930, which is \$11,852 or 1.1% above the budget estimate (\$1,189,078). Compared to collections in 2010 (\$1,204,559), sales tax collections have decreased \$3,629 or 0.3%. Recent collections are attributable primarily to an uptick in construction activity. This activity is cyclical in nature and increases in 2009 and 2010 are driven by public improvements (e.g., Sound Transit's Freeway Station) versus private investments, which still lag compared to historical trends. We still lag far behind collections through third quarter for 2006, 2007, and 2008 particularly if adjusted for inflation. This shortfall is a result of the current recession that began in December 2007, again reflecting the weak economic climate locally, regionally and nationally.

Sales Tax Month	2006	2007	2008	2009	2010	2011		Change (bud vs. act)	
						Budget	Actual	\$	%
January	\$ 137,110	\$ 156,986	\$ 106,774	\$ 140,444	\$ 117,297	\$ 125,995	\$ 139,286	\$ 13,291	10.5%
February	123,338	194,488	111,126	116,477	127,379	125,916	121,448	(4,468)	-3.5%
March	143,207	148,208	178,228	125,946	144,396	140,185	146,681	6,496	4.6%
April	131,338	130,211	133,987	128,375	125,545	122,046	131,181	9,134	7.5%
May	138,482	123,979	123,005	129,478	121,371	121,043	123,883	2,840	2.3%
June	151,226	161,593	153,441	132,794	154,155	147,882	138,710	(9,172)	-6.2%
July	138,361	126,952	139,119	132,444	140,414	130,055	121,394	(8,661)	-6.7%
August	140,179	133,653	132,166	122,100	134,140	126,796	130,347	3,551	2.8%
September	155,523	163,049	155,999	147,461	139,862	149,160	148,000	(1,160)	-0.8%
October	129,513	134,858	137,937	131,981	132,905	126,420	-		
November	128,789	125,128	134,084	115,908	135,795	127,668	-		
December	187,735	157,476	206,318	225,494	193,304	186,681	-		
Total	\$ 1,704,801	\$ 1,756,581	\$ 1,712,184	\$ 1,648,902	\$ 1,666,563	\$ 1,629,846	\$ 1,200,930	\$ 11,852	1.1%

Gambling Tax

The following graph and table summarizes gambling tax revenue collections through third quarter between 2006 and 2011. Through third quarter 2011, gambling tax collections totaled \$772,169, which is \$127,831, or 14.2% below the budget estimate (\$900,000).



Gambling Taxes	2006	2007	2008	2009	2010	2011		Change (bud vs. act)	
						Budget	Actual	\$	%
<i>Gambling Business</i>									
Crazy Moose Casino	\$ 380,591	\$ 431,140	\$ 396,491	\$ 388,552	\$ 473,742	\$ 471,000	\$ 440,087	\$ (30,913)	-6.6%
Red Dragon Casino	366,814	392,100	353,022	289,309	315,391	324,000	214,731	(109,269)	-33.7%
Silver Dollar Casino	243,767	226,986	150,824	-	-	-	-	-	n/a
Seattle Junior Hockey	119,907	103,374	85,496	63,438	59,309	57,000	51,327	(5,673)	-10.0%
Other Restaurants, Pubs	64,376	51,014	53,247	61,310	49,965	48,000	66,024	18,024	37.6%
Total Gambling Business	\$ 1,175,455	\$ 1,204,614	\$ 1,039,080	\$ 802,609	\$ 898,407	\$ 900,000	\$ 772,169	\$ (127,831)	-14.2%

Compared to 2010 activity (\$898,407), gambling tax collections have decreased \$126,238, or 14.1%. Collections for this very volatile general fund revenue still lag far behind collections for 2006 through 2009 as well.

Of particular concern is the City's reliance on gambling taxes for basic municipal services – an estimated total of 8.2% of General Fund revenue and 6.7% 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 negatively impacted in the near future, hence our focus on economic development.

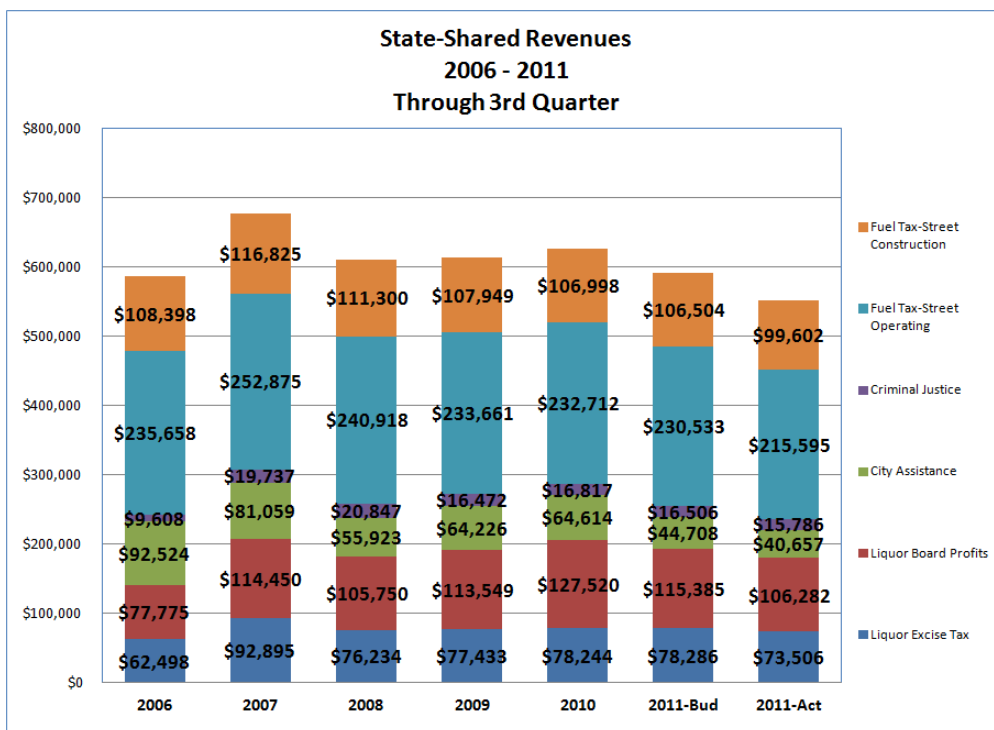
State-Shared Revenues

The following graph and table presents a comparison of State-Shared revenues received through third quarter between 2006 and 2011. State-shared revenues totaled \$551,428 through third quarter 2011, which is \$40,493, or 6.8% below the budget estimate (\$591,921).

This is the lowest collection

amount for the years 2006 through 2011. Compared to 2010 activity (\$626,905), state-shared revenue collections have decreased \$75,477, or 12.0%.

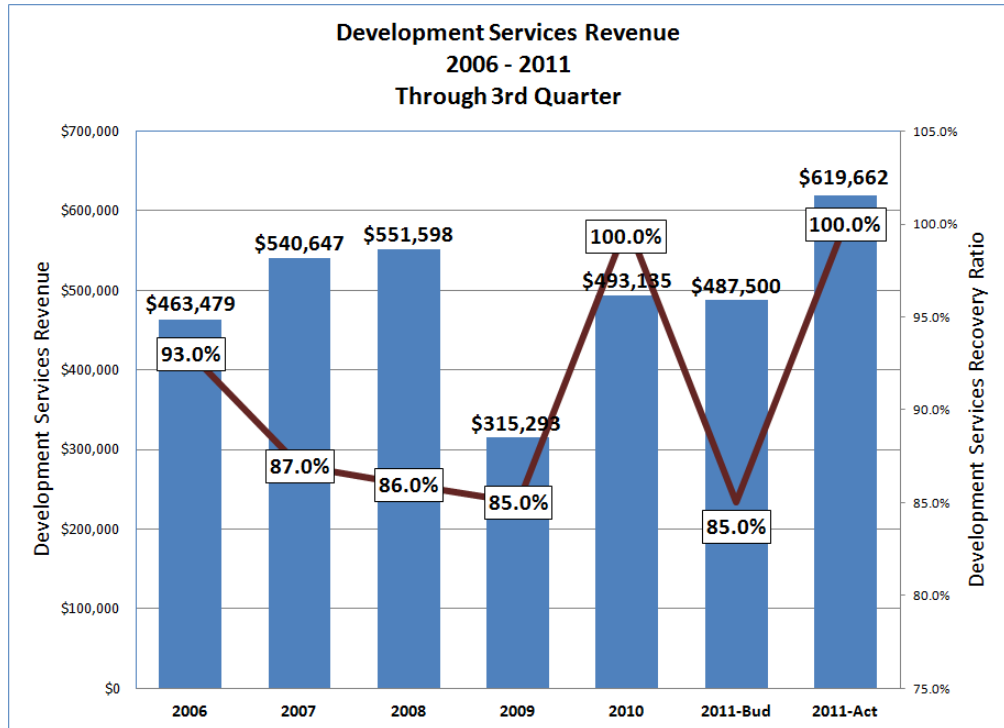
The decrease is attributable to current economic conditions coupled with the State Legislature's decision to reduce liquor revenues by 3.4%. For example, City Assistance funds come from a portion of the State's real estate excise tax. The State's REET collections have been negatively impacted due to 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. All state-shared revenue collections still lag considerably compared to collections in previous years, particularly if adjusted for inflation.



State-Shared Revenues Source	2006	2007	2008	2009	2010	2011		Change (bud vs. act)	
						Budget	Actual	\$	%
General Fund									
Liquor Excise Tax	\$ 62,498	\$ 92,895	\$ 76,234	\$ 77,433	\$ 78,244	\$ 78,286	\$ 73,506	\$ (4,780)	-6.1%
Liquor Board Profits	77,775	114,450	105,750	113,549	127,520	115,385	106,282	(9,103)	-7.9%
City Assistance	92,524	81,059	55,923	64,226	64,614	44,708	40,657	(4,051)	-9.1%
Criminal Justice	9,608	19,737	20,847	16,472	16,817	16,506	15,786	(720)	-4.4%
Total General Fund	\$ 242,405	\$ 308,141	\$ 258,754	\$ 271,680	\$ 287,195	\$ 254,885	\$ 236,231	\$ (18,654)	-7.3%
Street Operating Fund									
Fuel Tax-Street Operating	235,658	252,875	240,918	233,661	232,712	230,533	215,595	(14,938)	-6.5%
Total Street Operating Fund	\$ 235,658	\$ 252,875	\$ 240,918	\$ 233,661	\$ 232,712	\$ 230,533	\$ 215,595	\$ (14,938)	-6.5%
Street Construction Fund									
Fuel Tax-Street Constructi	108,398	116,825	111,300	107,949	106,998	106,504	99,602	(6,902)	-6.5%
Total Street Construction F	\$ 108,398	\$ 116,825	\$ 111,300	\$ 107,949	\$ 106,998	\$ 106,504	\$ 99,602	\$ (6,902)	-6.5%
Total State-Shared Revenue	\$ 586,461	\$ 677,841	\$ 610,972	\$ 613,290	\$ 626,905	\$ 591,921	\$ 551,428	\$ (40,493)	-6.8%

Development Services Fees

The following graph and table illustrate development services activity to include building permits, engineering, and plan check/zoning fee activity through third quarter between 2006 and 2011. These fees are legally restricted to fund the City's development



services program, since the General Fund currently does not have the financial capacity to subsidize these costs.

Overall, development services fees collected through third quarter 2011 totaled \$619,662, which is \$132,162 or 27.1% above the budget estimate (\$487,500). Compared with 2010 activity (\$493,135), development services fee revenue has increased \$126,527 or 25.7%.

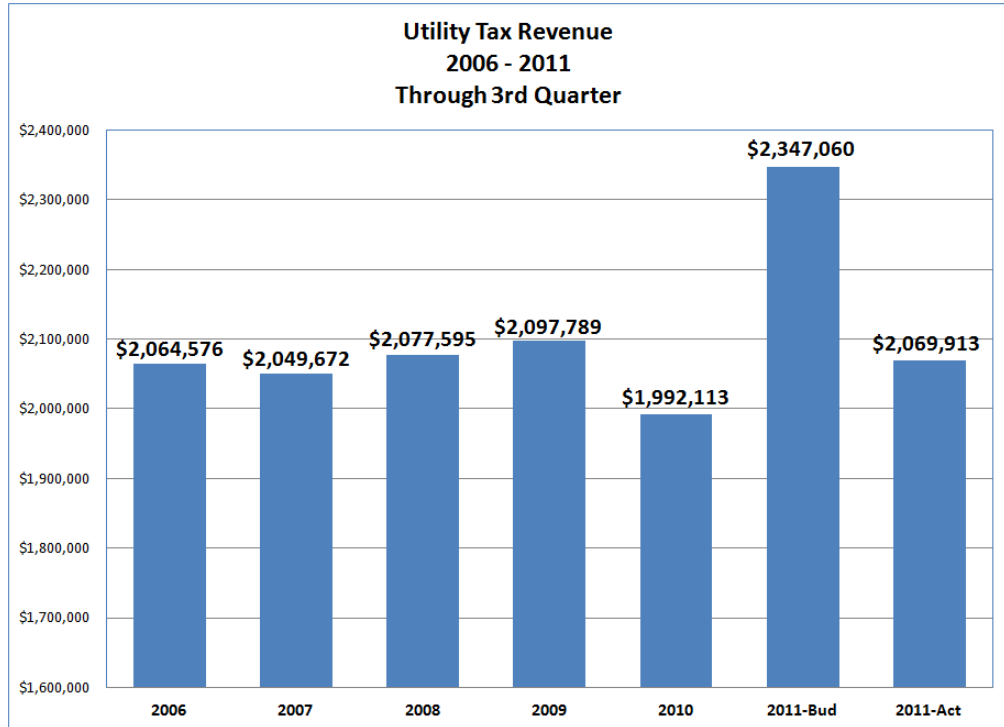
Development Services Source	2006	2007	2008	2009	2010	2011		Change (bud vs. act)	
						Budget	Actual	\$	%
Building Permits	\$ 190,663	\$ 160,472	\$ 124,788	\$ 144,529	\$ 225,217	\$ 262,500	\$ 277,527	\$ 15,027	5.7%
Engineering Fees	156,245	166,503	82,753	52,852	132,082	112,500	140,912	28,412	25.3%
Plan Check/Zoning Fees	116,571	213,672	344,057	117,912	135,836	112,500	201,223	88,723	78.9%
Total Development Services	\$ 463,479	\$ 540,647	\$ 551,598	\$ 315,293	\$ 493,135	\$ 487,500	\$ 619,662	\$ 132,162	27.1%

In addition, our development services program is realizing expenditure savings. The Community and Economic Development Department's operating expenditures are \$58,004 or 8.0% 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 through third quarter between 2006 and 2011. Through third quarter 2011, utility tax collections totaled \$2,069,913, which is \$277,147, or 11.8% below the budget estimate (\$2,347,060).



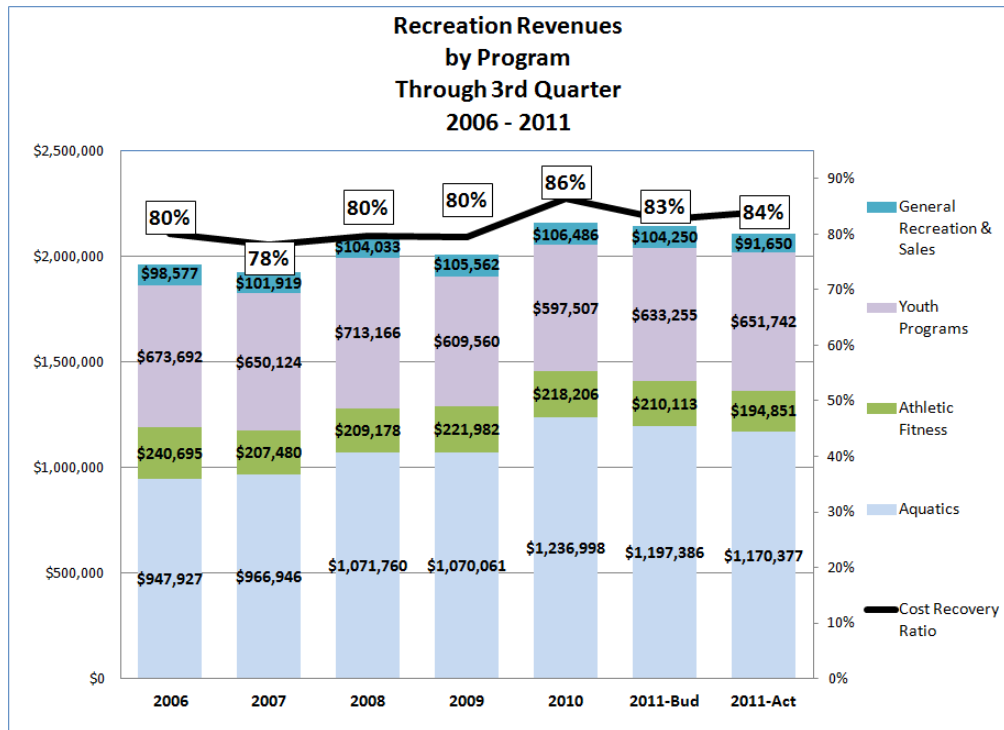
Compared to 2010 activity (\$1,992,113), utility tax collections have increased \$77,800 or 3.9%, however collections still lag if adjusted for inflation when compared to collections in previous years, particularly 2006 through 2009, due primarily to the weak economy.

Utility Tax Source	2006	2007	2008	2009	2010	2011		Change (bud vs. act)	
						Budget	Actual	\$	%
Gas	\$ 167,170	\$ 213,600	\$ 206,134	\$ 227,211	\$ 169,147	\$ 232,500	\$ 202,118	\$ (30,382)	-13.1%
Solid Waste	159,922	167,663	157,313	178,936	171,136	189,375	171,315	(18,060)	-9.5%
Telephone	574,481	588,500	583,436	550,083	513,010	600,000	472,689	(127,311)	-21.2%
Electricity	486,759	502,382	510,728	509,823	498,909	552,000	511,041	(40,959)	-7.4%
Cable	273,231	147,509	154,427	145,432	145,169	150,000	144,166	(5,834)	-3.9%
City Utilities	403,013	430,018	465,557	486,304	494,742	623,185	568,584	(54,601)	-8.8%
Total Utility Tax Revenues	\$ 2,064,576	\$ 2,049,672	\$ 2,077,595	\$ 2,097,789	\$ 1,992,113	\$ 2,347,060	\$ 2,069,913	\$ (277,147)	-11.8%

Recreation Program

The following graph and table summarize recreation activity through third quarter between 2006 and 2011.

Through third quarter 2011, recreation fee collections totaled \$2,108,620, which is \$36,384, or 1.7% below the budget estimate (\$2,145,004).



Compared to 2010 activity (\$2,159,197), recreation fee collections have decreased by \$50,577, or 2.3%. This decrease is most likely attributable to the opening of other facilities in the area, which were closed for most of 2010 and parts of 2011. However, revenues continue to be higher than collections between 2006 and 2009 showing that clients continue to take advantage of our Recreation Pavilion, a locally and nationally recognized community amenity. For example, the Recreation Pavilion was voted the winner in the Best Water Play category and awarded a Golden Teddy by *ParentMap Magazine* in August 2011, the most recent of many awards and recognition.

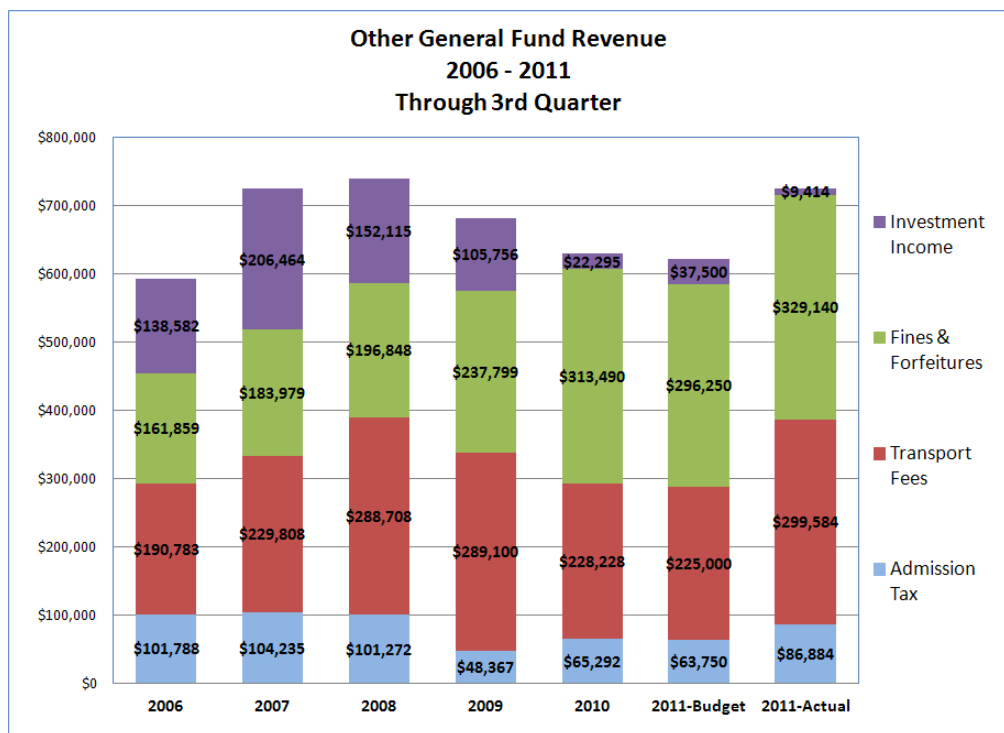
In addition, recreation program costs (\$2,508,172) are under the budget estimate (\$2,596,695) by \$88,624 or 3.4%, reflecting the financial prudence being practiced by the Recreation Department. The result of this is that the recreation program's cost recovery ratio is 84%, slightly better than the policy objective of 83%.

Recreation Program Source & Uses	2006	2007	2008	2009	2010	2011		Change (bud vs. act)	
						Budget	Actual	\$	%
Recreation Fees									
Aquatics	\$ 947,927	\$ 966,946	\$ 1,071,760	\$ 1,070,061	\$ 1,236,998	\$ 1,197,386	\$ 1,170,377	\$ (27,009)	-2.3%
Athletic Fitness	240,695	207,480	209,178	221,982	218,206	210,113	194,851	(15,262)	-7.3%
Youth Programs	673,692	650,124	713,166	609,560	597,507	633,255	651,742	18,487	2.9%
General Recreation & Sales	98,577	101,919	104,033	105,562	106,486	104,250	91,650	(12,600)	-12.1%
Program Fees	\$ 1,960,891	\$ 1,926,469	\$ 2,098,137	\$ 2,007,165	\$ 2,159,197	\$ 2,145,004	\$ 2,108,620	\$ (36,384)	-1.7%
Recreation Program									
Aquatics	\$ 1,175,187	\$ 1,216,030	\$ 1,266,581	\$ 1,135,580	\$ 1,182,331	\$ 1,272,428	\$ 1,304,722	\$ 32,294	2.5%
Athletic Fitness	253,431	240,369	285,302	232,231	214,667	284,087	239,507	(44,580)	-15.7%
Youth Programs	852,263	850,489	925,489	999,697	946,805	886,057	812,796	(73,261)	-8.3%
General Recreation	29,030	19,908	18,249	17,692	16,142	15,474	12,397	(3,077)	-19.9%
Debt Service	138,750	138,750	138,750	138,750	138,750	138,750	138,750	-	0.0%
Program Costs	\$ 2,448,661	\$ 2,465,546	\$ 2,634,371	\$ 2,523,950	\$ 2,498,695	\$ 2,596,796	\$ 2,508,172	\$ (88,624)	-3.4%
General Fund Subsidy	\$ (487,770)	\$ (539,077)	\$ (536,234)	\$ (516,785)	\$ (339,498)	\$ (451,792)	\$ (399,552)	\$ 52,240	-11.6%
Cost Recovery Ratio	80%	78%	80%	80%	86%	83%	84%	1.5%	1.8%

Other General Fund Revenue

- Admission taxes total \$86,884 through third quarter 2011, which is \$23,134 or 36.3% above the budget estimate (\$63,750) and represents activity at Cinebarrre, which replaced the Regal Mountlake 9 Theatre in mid-2009. Reports continue to reveal that their unique and different approach to taking in a movie has been very successful and they are enjoying much better success than the former Mountlake 9, which we anticipate will generate both admission taxes and sales tax from the food service. This is reflected in the fact that admissions taxes have increased \$21,592 or 33.1% from collections through third quarter 2010 (\$65,292).
- Transport fees (\$299,584), which represent financial reimbursement from Medicaid, Medicare, and private insurance policies for the cost of providing medically necessary ambulance transportation is above budgetary estimates (\$225,000) by \$74,584 or 33.1%. Collections increased from third quarter 2010 (\$228,228) by \$71,356 or 31.3%.

- Fines and forfeitures revenues collections (\$329,140), which are comprised primarily of traffic infractions and criminal citations, are above budgetary estimates (\$296,250) by \$32,890 or 11.1%. Compared to collections through third



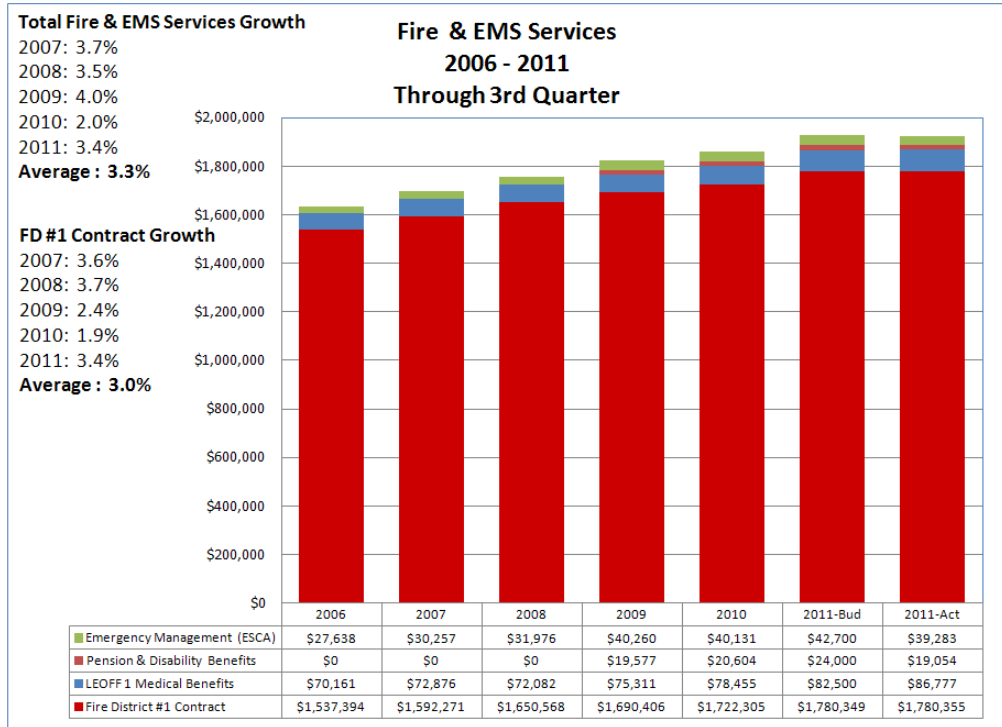
quarter 2010 (\$313,490), collections have increased \$15,650 or 5.0% reflecting a more proactive police presence in the community. This revenue source along with dedicated general fund taxes helps pay for municipal court and jail service costs.

- General Fund investment interest revenues total \$9,414, which is \$28,086 or 74.9% below the budget estimate (\$37,500) due primarily to poor economic conditions. 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	2011		Change (bud vs. act)	
						Budget	Actual	\$	%
Revenues									
Property Tax-EMS Levy	\$ 579,699	\$ 607,172	\$ 605,344	\$ 627,581	\$ 839,588	\$ 766,976	\$ 762,747	\$ (4,229)	-0.6%
Transport Fees	190,783	229,808	288,708	289,100	228,228	225,000	299,584	74,584	33.1%
Program Revenues	\$ 770,482	\$ 836,980	\$ 894,052	\$ 916,681	\$ 1,067,816	\$ 991,976	\$ 1,062,331	\$ 70,355	7.1%
Expenditures									
LEOFF 1 Medical Benefits	\$ 70,161	\$ 72,876	\$ 72,082	\$ 75,311	\$ 78,455	\$ 82,500	\$ 86,777	\$ 4,277	5.2%
Pension & Disability Bene	-	-	-	19,577	20,604	24,000	19,054	(4,946)	-20.6%
Emergency Mgmt (ESCA)	27,638	30,257	31,976	40,260	40,131	42,700	39,283	(3,417)	-8.0%
Fire District #1 Contract									
Fire Suppression	299,041	300,712	301,400	323,463	331,144	396,187	394,943	(1,244)	-0.3%
Fire Prevention	55,790	55,058	58,734	58,581	53,163	52,170	54,759	2,589	5.0%
Emergency Medical Serv	1,182,563	1,236,501	1,290,434	1,308,362	1,337,998	1,331,993	1,330,653	(1,340)	-0.1%
Subtotal Fire District #1 C	1,537,394	1,592,271	1,650,568	1,690,406	1,722,305	1,780,349	1,780,355	6	0.0%
Program Costs	\$ 1,635,193	\$ 1,695,404	\$ 1,754,626	\$ 1,825,554	\$ 1,861,495	\$ 1,929,549	\$ 1,925,469	\$ (4,080)	-0.2%
General Fund Contribution	\$ (864,711)	\$ (858,424)	\$ (860,574)	\$ (908,873)	\$ (793,679)	\$ (937,573)	\$ (863,138)	\$ 74,435	-7.9%
Cost Recovery Ratio	47%	49%	51%	50%	57%	51%	55%	n/a	n/a

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 Fire-fighter/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	2010	Change 2010/2009	
							#	%
Fire & EMS Response								
Fire	400	499	419	409	450	480	30	6.7%
EMS	1,614	1,596	1,700	1,765	1,694	1,673	(21)	-1.2%
Total Incidents	2,014	2,095	2,119	2,174	2,144	2,153	9	0.4%
Fire	19.9%	23.8%	19.8%	18.8%	21.0%	22.3%	1%	6.2%
EMS	80.1%	76.2%	80.2%	81.2%	79.0%	77.7%	-1%	-1.7%
Total Incidents	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	n/a	n/a
Response Time % within 8 minutes	91.4%	88.0%	90.0%	91.5%	90.1%	91.4%	1.3%	1.4%
Response time defined as time dispatch (SNOCOM) receives 911 call to when fire & EMS units arrive on location.								

Regional Fire Protection Service Authority (RFA)

The City Council, at their February 7, 2011 meeting, approved a Resolution establishing a Regional Fire Protection Service Authority (RFA) planning committee and appointed Mayor Jerry Smith, Mayor Pro Tem Laura Sonmore and Councilmember Doug McCardle to represent Mountlake Terrace.

Currently, nine jurisdictions have joined the RFA Planning Committee: the Cities of Brier, Edmonds, Lynnwood, Mill Creek, Mountlake Terrace, Mukilteo, Town of Woodway and Snohomish County Fire Districts #1 and #7.

Each jurisdiction is represented by three elected officials, appointed by their respective legislative bodies. Pursuant to state law, the evaluation and establishment of an RFA commences with a planning committee to consider matters identified in RCW 52.26.040 and other related matters that may ultimately culminate in preparation of a regional fire protection service plan to be submitted to the voters.

The formation of the planning committee was the result of a follow up to the informational meeting sponsored by the Mayors of Brier, Edmonds, Lynnwood, Mill Creek, Mountlake Terrace, Mukilteo, and Woodway on how an RFA is formed in January 2011.

The RFA Planning Committee is evaluating information and developing plans for level of service, finance, governance and other key issues related to regional delivery of fire and EMS.

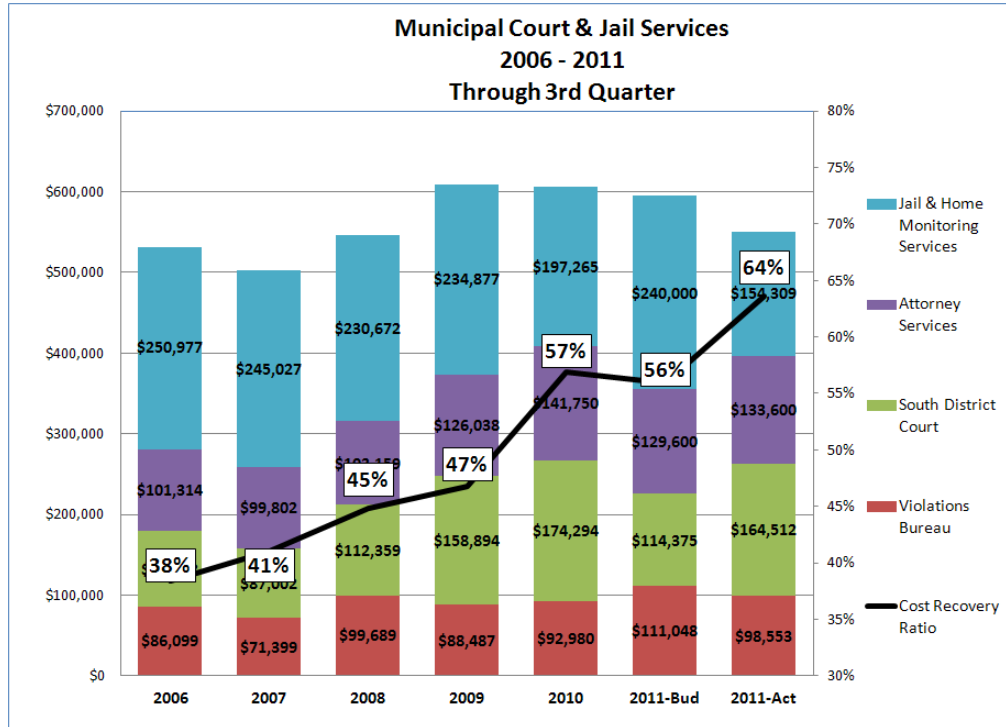
To facilitate this effort, the RFA Planning Committee has established three sub-committees on key issues: communications; finance; and level of service (LOS). If feasible, the planning committee will draft a work plan for establishing an RFA and a ballot measure would then be placed before voters in participating jurisdictions to form the RFA. The three sub-committees, continue their work. The finance sub-committee, chaired by Mayor Pro Tem Sonmore is beginning to evaluate financing options to include the underlying assumptions of what costs should be included in the proposed RFA and those that should continue to be the responsibility of, in our case, the City of Mountlake Terrace.

The RFA Planning Committee meets the first Wednesday of each month at 6:00 PM. All meetings are open to the public. The meeting location rotates among participating jurisdictions and is posted on the RFA Planning Committee website: www.rfa-planning.org. Agendas, minutes and planning documents are also available online.

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 2011 filing fee for infractions totals \$35.89, while the filing fee for criminal misdemeanors totals \$104.

Through 3rd Quarter	2006	2007	2008	2009	2010	2011	Change (11 vs. 10)	
District Court Filings							#	%
Infraction Non-Traffic	1	0	1	4	4	2	(2)	n/a
Infraction Traffic	1,204	1,177	1,331	1,614	1,952	1,992	40	2.0%
Criminal Non-Traffic	277	237	228	280	327	208	(119)	-36.4%
Criminal Traffic	409	372	351	619	612	592	(20)	-3.3%
DUI	112	89	72	86	80	53	(27)	-33.8%
Parking	0	0	8	6	12	17	5	41.7%
Total Cases	2,003	1,875	1,991	2,609	2,987	2,864	(123)	-4.1%

- 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. The City provides public defender services to an average of 400 defendants annually.

	2006	2007	2008	2009	2010	2011
Public Defender Cases	YTD	YTD	YTD	YTD	YTD	30-Sep
City Residents	110	101	99	165	146	65
Non-city Residents	258	235	239	348	341	179
Total Cases	368	336	338	513	487	244

- The City contracts with the Snohomish County Sheriff's Office, Okanogan County Sheriff's Office (new in 2011) 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.

Jail Service Fees	Snohomish County Jail	City of Lynnwood Jail	Okanogan County Jail Proposed
Booking Fee	\$90.00	\$10.00	n/a
Daily Maintenance Fee	\$62.50	\$65.00	\$51.00

- 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 Source & Uses	2006	2007	2008	2009	2010	2011		Change (bud vs. act)	
						Budget	Actual	\$	%
<i>Revenues</i>									
<i>Fines & Forfeitures</i>									
District Court	\$ 132,166	\$ 152,991	\$ 149,555	\$ 179,425	\$ 244,786	\$ 225,000	\$ 253,057	\$ 28,057	12.5%
Tickets Paid at City	23,903	23,968	38,833	45,967	55,458	60,000	53,117	(6,883)	-11.5%
Civil Violations	5,790	7,020	8,460	12,407	13,246	11,250	22,966	11,716	104.1%
Sub-total	161,859	183,979	196,848	237,799	313,490	296,250	329,140	32,890	11.1%
Home Monitoring Fees	42,200	22,344	47,978	46,918	31,680	36,750	21,360	(15,390)	-41.9%
Total Revenues	\$ 204,059	\$ 206,323	\$ 244,826	\$ 284,717	\$ 345,170	\$ 333,000	\$ 350,500	\$ 17,500	5.3%
<i>Expenditures</i>									
Violations Bureau	\$ 86,099	\$ 71,399	\$ 99,689	\$ 88,487	\$ 92,980	\$ 111,048	\$ 98,553	\$ (12,495)	-11.3%
South District Court	92,952	87,002	112,359	158,894	176,258	114,000	154,217	40,217	35.3%
Interpreter Services	-	-	-	-	16,497	10,500	10,295	(205)	-2.0%
Witness Fees	-	-	-	-	131	375	-	(375)	-100.0%
Fees from Defendants	-	-	-	-	(18,592)	(10,500)	-	10,500	n/a
Sub-total	92,952	87,002	112,359	158,894	174,294	114,375	164,512	50,137	43.8%
<i>Attorney Services</i>									
Prosecuting Attorney & Dom Viol Prosecutor	57,908	55,363	60,109	76,219	92,700	80,100	74,850	(5,250)	-6.6%
Public Defender	40,500	41,400	41,400	46,800	46,800	46,500	56,250	9,750	21.0%
Conflict Public Defender	2,906	3,039	1,650	3,019	2,250	3,000	2,500	(500)	-16.7%
Sub-total	101,314	99,802	103,159	126,038	141,750	129,600	133,600	4,000	3.1%
<i>Jail & Home Monitoring Ser</i>									
Chelan County Jail	12,727	4,662	289	-	-	-	-	-	n/a
City of Lynnwood Jail	41,480	39,939	40,685	43,857	28,707	16,200	25,057	8,857	54.7%
Okanogan County Jail	4,074	-	-	-	-	-	-	-	n/a
Snohomish County Jail	182,465	185,020	174,753	176,482	156,395	208,800	122,454	(86,346)	-41.4%
Inmate Medical Costs	-	5,056	558	-	3,033	-	485	485	n/a
Home Monitoring Svcs	10,232	10,350	14,387	14,538	9,130	15,000	6,313	(8,687)	-57.9%
Subtotal	250,977	245,027	230,672	234,877	197,265	240,000	154,309	(85,691)	-35.7%
Total Expenditures	\$ 531,340	\$ 503,230	\$ 545,878	\$ 608,296	\$ 606,289	\$ 595,023	\$ 550,974	\$ (44,049)	-7.4%
General Fund Contribution	\$ (327,281)	\$ (296,907)	\$ (301,052)	\$ (323,579)	\$ (261,119)	\$ (262,023)	\$ (200,474)	\$ 61,549	-23.5%
Cost Recovery Ratio	38%	41%	45%	47%	57%	56%	64%	n/a	n/a

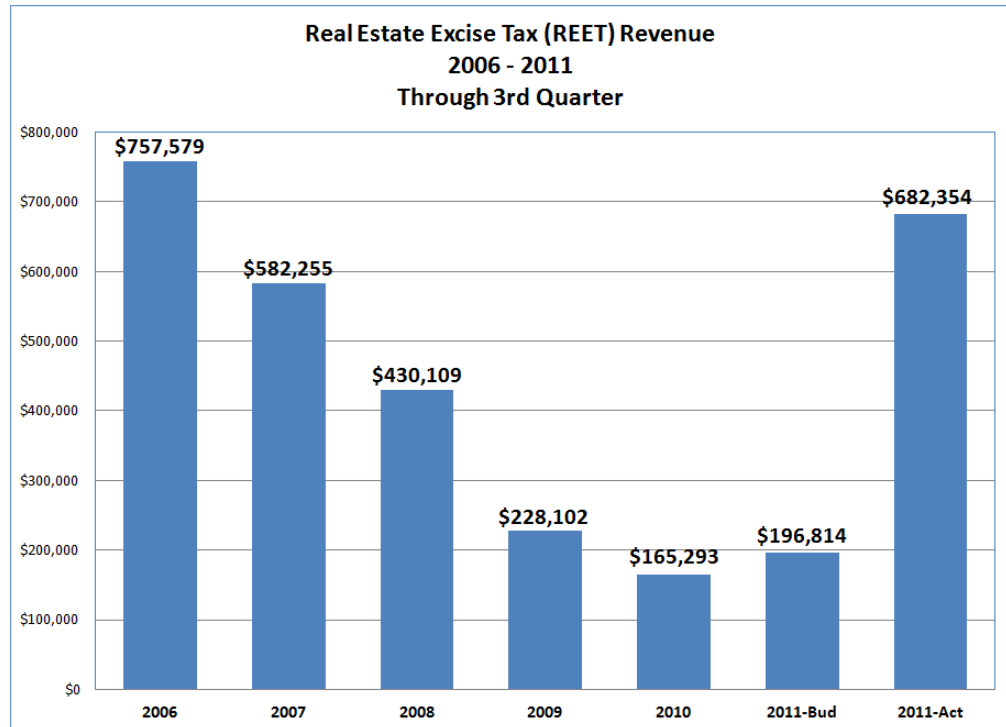
Capital Improvement Funds

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	2011			Change (bud vs. act)		
						Budget	3rd Quarter	Actual	\$	%	
Capital Improvement Funds											
Beginning Fund Balances	\$ 3,575,170	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 4,657,418	\$ 3,745,657	\$ 3,745,657	\$ 3,745,657	\$ -	0.0%	
Operating Revenues											
Real Estate Excise Tax	966,611	693,101	486,364	292,652	229,706	250,000	196,814	682,354	485,540	246.7%	
Motor Vehicle Fuel Tax	150,104	156,166	149,373	143,861	143,282	142,005	106,504	99,602	(6,902)	-6.5%	
Cable PEG Fees	16,796	16,988	16,916	21,485	17,095	17,000	12,750	22,396	9,646	75.7%	
Transportation Impact Fees	-	-	2,334	1,081	35,359	276,800	207,600	41,136	(166,464)	n/a	
Park Impact Fees	-	-	4,224	2,026	56,563	180,000	135,000	94,302	(40,698)	n/a	
Investment Interest/Other	165,996	282,880	257,504	150,613	91,722	149,600	112,200	47,567	(64,633)	-57.6%	
Subtotal Operating Revenue	1,299,507	1,149,135	916,715	611,718	573,727	1,015,405	770,868	987,357	216,489	28.1%	
Other Financing Sources											
Transfer In: General Fund	741,756	2,126,000	356,000	500,000	655,000	715,000	536,250	536,250	-	0.0%	
Transfer In: Street Operating Fund	419,407	-	-	-	-	-	-	-	-	n/a	
Transfer In: REET Fund	155,000	1,775,589	228,000	260,865	-	-	-	-	-	n/a	
Transfer In: Strategic Reserve Fund	-	-	-	300,000	10,000	25,000	18,750	9,015	(9,735)	-51.9%	
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	500,000	114,824	-	-	-	n/a	
Grants	398,257	172,558	118,853	848,442	1,158,338	785,590	47,263	47,263	-	0.0%	
Subtotal Other Financing Sources	1,726,142	4,873,855	702,853	2,289,307	2,323,338	1,640,414	602,263	592,528	(9,735)	-1.6%	
Total Capital Improvement Funds	\$ 6,600,819	\$10,620,305	\$ 8,361,147	\$ 8,524,161	\$ 7,554,482	\$ 6,401,476	\$ 5,118,788	\$ 5,325,542	\$ 206,754	4.0%	
Capital Program											
Overlay Program	\$ 881,419	\$ 483,158	\$ 474,248	\$ 999,768	\$ 41,337	\$ 639,765	\$ 11,902	\$ 11,902	\$ -	0.0%	
Chip & Slurry Seal Program	211,091	155,610	236,245	191,901	305,832	355,300	361,338	361,338	-	0.0%	
ADA Sidewalk Program	-	-	-	36,773	-	40,000	-	-	-	n/a	
Traffic Calming Program	1,695	5,995	15,152	-	-	20,000	-	-	-	n/a	
Bicycle Route Program	-	-	-	-	22,549	20,000	-	-	-	n/a	
Sidewalk Program	48,175	294,480	55,067	55,611	154,860	468,765	-	-	-	n/a	
Transportation Plan	-	75,057	-	-	-	-	-	-	-	n/a	
Traffic & Signal Control Program	182,470	-	26,072	140,367	391,493	227,521	143,439	143,439	-	0.0%	
Interurban Trail Link	39	4,681	150,256	5,800	-	21,444	-	-	-	n/a	
Street Reconstruction	8,145	13,659	16,960	210,784	1,233,931	789,375	807	807	-	n/a	
Engineering Services	87,000	184,455	238,244	341,589	321,095	253,545	180,360	180,360	-	0.0%	
Capital-Artwork	-	-	7,500	17,500	-	-	-	-	-	n/a	
Capital-Information Technology	65,856	144,111	166,196	174,445	99,046	132,824	44,964	44,964	-	0.0%	
Capital-Community & Economic Develop	-	320,953	123,940	-	-	-	-	-	-	n/a	
Capital-Property Management	54,870	150,881	481,385	225,504	354,127	116,980	32,878	32,878	-	0.0%	
Capital-Interim City Hall	-	-	-	399,982	545,794	464,824	350,647	350,647	-	0.0%	
Capital-Parks	-	114,128	280,419	61,757	30,510	106,226	27,401	27,401	-	0.0%	
Capital-Recreation	29,182	13,719	24,870	21,818	4,851	25,900	11,207	11,207	-	0.0%	
Capital-Police	81,226	-	71,206	60,666	92,564	78,493	57,999	57,999	-	0.0%	
Subtotal Other Financing Uses	1,651,168	1,960,887	2,367,760	2,944,265	3,597,989	3,760,962	1,222,942	1,222,942	-	0.0%	
Transfer Out (Debt Service & CIP)	352,336	1,917,839	370,250	922,478	210,836	260,078	195,059	195,059	-	0.0%	
Total Capital Improvement Funds	\$ 2,003,504	\$ 3,878,726	\$ 2,738,010	\$ 3,866,743	\$ 3,808,825	\$ 4,021,040	\$ 1,418,001	\$ 1,418,001	-	0.0%	
Fund Balances											
Designated/Reserved:											
P.E.G. (Cable Fees)	\$ 32,309	\$ 37,476	\$ 47,886	\$ 63,926	\$ 81,021	\$ 98,021	\$ 93,771	\$ 103,417	9,646	10.3%	
Transportation Impact Fees	-	-	2,334	2,334	38,774	315,574	246,374	79,910	(166,464)	-67.6%	
Park Impact Fees	56,213	56,213	10,110	6,250	62,813	242,813	197,813	157,115	(40,698)	-20.6%	
Capital Improvements	4,508,793	6,647,890	5,562,807	4,584,908	3,563,049	1,724,028	3,162,829	3,567,099	404,270	12.8%	
Total Ending Fund Balances	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 4,657,418	\$ 3,745,657	\$ 2,380,436	\$ 3,700,787	\$ 3,907,541	\$ 206,754	5.6%	

Real Estate Excise Taxes

The following graph and table illustrate collection history for the first and second 1/4 percent real estate excise taxes (REET). The table and graph both reflect the cyclical variation in this revenue source. Through third quarter 2011, REET revenues (\$682,354) were above budgetary estimates



(\$196,814) by \$485,540 due primarily to the sale of the multi-family apartment complex Taluswood, formerly called Creekside. Compared with 2010 activity (\$165,293), REET revenues have increased \$517,061. However, collections from single-family residential sales, which represent the bulk of REET, still lag significantly when compared to collections in previous years, particularly 2006 through 2008, due primarily to the weak economy and slowing real estate market.

Real Estate Excise Tax Month	2006	2007	2008	2009	2010	2011		Change (bud vs. act)	
						Budget	Actual	\$	%
January	\$ 40,033	\$ 47,661	\$ 40,985	\$ 45,587	\$ 11,186	\$ 18,428	\$ 13,641	\$ (4,787)	-26.0%
February	35,329	34,742	34,647	11,905	6,579	11,405	43,880	32,475	284.7%
March	65,065	61,674	34,183	15,461	21,687	17,935	39,354	21,419	119.4%
April	64,087	66,041	38,536	16,750	20,069	18,748	13,504	(5,244)	-28.0%
May	67,692	88,856	128,309	16,282	22,519	29,482	14,292	(15,190)	-51.5%
June	213,025	112,523	43,814	21,106	15,572	28,145	319,216	291,071	1034.2%
July	135,618	72,816	33,147	47,594	26,048	30,999	27,180	(3,819)	-12.3%
August	63,927	56,712	28,679	29,321	22,654	20,795	172,743	151,948	730.7%
September	72,803	41,230	47,809	24,096	18,979	20,876	38,544	17,668	84.6%
October	110,243	39,594	28,369	21,299	20,955	20,799			
November	51,404	43,308	12,471	28,732	10,069	15,891			
December	47,385	27,944	15,415	14,519	33,388	16,496			
Total REET	\$ 966,611	\$ 693,101	\$ 486,364	\$ 292,652	\$ 229,705	\$ 250,000	\$ 682,354	\$ 485,540	276.0%

Our REET revenue estimate for 2011 totals \$250,000 and is allocated specifically for capital projects. 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.

The good news is that even though REET collections are well below historical collections, our capital projects program will not suffer because of unanticipated state and federal funds that we expect to receive.

Federal & State Grants/Appropriations Received

The City has been very successful in obtaining the following federal and state funds that we have or are expected to receive in the coming year -- totals approximately \$7.0 million dedicated for much needed capital investments from 2008 through 2011:

52nd/53rd Avenues Water Main Construction Project

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

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

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

230th Street SW Reconstruction Project

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

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

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

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

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

Stormwater Program

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

Town Center

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

Lakeview Trail

- \$200,000 - FY 2010 federal appropriations connecting Mountlake Terrace Transit Center at I-5/236th St West to Interurban Trail along Lakeview Drive
- \$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
- \$6,700 -- Washington State Traffic Safety Commission Funds for school zone flashing beacons at Terrace Park Elementary School

Safe Routes to School (Pedestrian & Bicycle, Mobility & Safety)

- \$330,304 - 54th Ave W, 220th to 223rd Sidewalks

STP (Street Overlay & Curb Ramp Upgrades)

- \$446,270 - 228th St SW & Cedar Way

54th Ave W, 234th to 236th Sidewalks

- \$200,000 - CDBG funds for sidewalks along 54th Ave W between 234th and 236th

Emergency Operations Center (EOC)

- \$250,000 - Department of Homeland Security grant to construct a state-of-the-art Emergency Operations Center (EOC) at the Operations Facility

Housing Needs

- \$300,000 CDBG Grant from Housing Authority of Snohomish County (HASCO) in support of rental inspection program

Swim Lessons for Third Graders

- \$210,000 (\$70,000 per year for three years) - Verdant Health Commission (formally the South Snohomish County Commission for Health) to provide swim lessons for third-graders at the Mountlake Terrace Recreation Pavilion

Federal & State Grants/Appropriations Pending

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 (this list does not include six grants the city applied for and was not selected). As other opportunities arise, the City will look to align community project needs to available grant funding (i.e., CDBG, STP, PSRC, CMAQ, HUD, safe routes to schools, etc.).

Federal & State Grant Requests	Grant	Amount
Downtown "Main Street" Revitalization Project – 56 th Ave W Corridor Improvements between 230 th St SW & 236 th St SW	TIGER III (Transportation Investment Generating Economic Recovery) program	\$10,000,000
	Community Challenge Grant (HUD)	\$1,000,000
Gateway Connector (former Evergreen School site)	Transportation, Community & System Preservation	\$1,000,000
Play equipment at the Evergreen Playfield Complex	Community Development Block Grant (CDBG)	\$85,000
Digitize Records	Local Records Grant Program	\$10,000
TOTAL		\$12,095,000

Federal Appropriation Requests	Status	Amount
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	\$17,880,000
--------------------	---------------------

Key Capital & Construction Investment Projects

The City continues to implement its \$88.5 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 underway in 2011.

1. East Side Water System Water Improvements: On the east side of the city, new 12" diameter mains 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 will begin in early 2012. A street overlay funded with a newly acquired grant will follow in 2012.
2. Town Center Water System Improvements: In the Town Center, new 8" and 12" diameter mains will be installed in 55th Avenue W between 230th and 237th, in 230th from 53rd to 56th, and in 234th from 55th to 56th. Optional improvements, depending upon the bidding climate may include a new 16" diameter main in 234th from 56th to 58th, and a new 12" main in 56th from 228th to 230th. The Town Center improvements are partially funded by a grant from the U.S. Environmental Protection Agency. Construction will begin this winter.
3. 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 will begin this winter.
4. 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 construction site is located at the 230th Street SW crossing of Hall Creek and through the northern portion of the City's Ballinger Lake Golf Course parking lot. Construction began in mid-July with substantial work completed by November.

The culvert removal portion of the project addresses serious flooding along Hall Creek. The primary objective of the culvert removal project is to help to alleviate flow constriction caused by four undersized culverts under 230th Street SW that during large storm events results in localized flooding. Limited capacity of the culverts under 230th Street SW has been a recurrent problem. During large rainfall events, the creek often overtops the roadway. A December 2007 storm resulted in flooding that damaged five homes upstream of the culverts. The project to remove the culverts includes reestablishing a natural stream in their place, constructing a pedestrian bridge over the creek, routing an eight inch water main under the creek, installing two new fire hydrants, and reconstructing the adjacent end of 230th Street SW.

The Ballinger Lake Golf Course Sewer Replacement is a companion project located just east of the culvert removal site. The sewer construction replaces an existing sewer that has settled significantly the past 40 years in soft, unstable soils and requires monthly cleaning to remove accumulating material that restricts flow. Due to peat soil layers below the surface of the area, the new sewer main will be supported on steel piling. The project includes restoration of the golf course parking lot impacted by the construction.

5. 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 last year allocating and defining each city's respective role and responsibilities associated with this project. Construction is planned to begin this winter. The project is partially funded by a grant from the Federal Highway Administration in the amount of \$571,180 that will be shared by both cities (\$285,590 for each city).
6. Chip Seal Program: This year's project, which was completed earlier this summer, focused on three streets that are either form or are adjacent to City boundaries; the project included 212th St SW between the Interurban trail and 52nd Ave W, 216th St SW between the Interurban trail and 66th Ave W and finally 244th St SW between 56th Ave W and Cedar Way. As both 212th and 244th form the boundary between Mountlake Terrace and our neighboring jurisdictions, the City of Mountlake Terrace was the lead agency in developing and managing the project in partnership with the cities of Lake Forest Park and Lynnwood, who funded their proportionate share of the project area.
7. Park Improvement Projects:
 - a) A new sidewalk will be constructed along the frontage of Bicentennial Park on 222nd Street which will improve park access, parking and overall appearance (sidewalk improvements will extend along northern portion of 222nd St SW between 39th and 44th);
 - b) Installation of new playground equipment and soft surface material at Terrace Ridge Park and construction of a new parking lot;
 - c) Playground improvements at Ballinger Playfield;
 - d) Installation of a retaining wall and construction of stage area for community events at Evergreen Playfield;
 - e) Demolition of Hirvela Cabin and expansion of Bicentennial Park;
 - f) Demolition of old Fire Station #18 and expansion of Firefighter's Memorial Park; and
 - g) Ballinger Lake Golf Course parking lot improvements (part of Hall Creek Culvert Removal and Sewer Replacement Project).
8. Public Facility Improvements:
 - a) Transition of Parks Maintenance into newly acquired Operations Facility;
 - b) Design and construction of decant facility;
 - c) Design and construction of Emergency Operations Center (EOC) at the Operations Facility that is funded with recently awarded Department of Homeland Security grant;
 - d) Recreation Pavilion Energy Systems Improvements (see below); and
 - e) Civic Center options and alternatives to include communication and outreach to community.
9. McAler Creek Culvert and Stream Bank Enhancement Project: On September 6, 2011, the City Council approved a contract to design and permit the McAler Creek Culvert Removal and Stream Bank Enhancement Project in partnership with the City of Edmonds. This project has been identified as a high priority for both the Mountlake Terrace City Council and Lake Ballinger/McAler Creek Watershed Forum, which the City is a partner. Culverts in McAler Creek between the Lake Ballinger weir and Interstate 5 on Nile Temple property

partially block fish passage, create a maintenance issue with accumulated sediment and debris and can restrict flow of the creek during large storm events resulting in upstream flooding on Lake Ballinger. Removal or replacement of up to three culverts and stream bank vegetation enhancements will assist with fish passage, provide habitat enhancement, reduce in-stream maintenance needs and provide major storm flood mitigation for Lake Ballinger. The project will require permitting from the City, State and Federal Agencies and specialized expertise for work in the creek, habitat restoration and construction techniques to complete project permitting and design. The Project schedule proposes design and permitting by April 2012 with construction occurring later in the summer with completion by the September, 2012 fish window authorized by Department of Fish and Wildlife.

10. Town Center – Public Investments

- a) Downtown “Main Street” Revitalization Project, 56th Ave W Corridor Improvements between 230th St SW & 236th St SW: The City continues to pursue financing opportunities to fund this project that will encourage and support revitalization in our downtown. A “TIGER III” federal transportation grant application was submitted in October by the Department of Community and Economic Development (CED) Department, as part of a multi-department team effort. The grant application requirements are extensive, the most complex the City has ever undertaken. The TIGER III application is for reconstructing “Main Street” (i.e., the segment of 56th Avenue West between 230th and 236th Streets SW, plus making improvements to three connecting street segments on the west side of 56th, namely 236th, 234th, and 232nd). The requested grant amount is \$10,869,357; if awarded, a 25% match (which could include in-kind services) would come from the City. The proposed project would reconstruct “Main Street,” adding wider sidewalks that meet the Town Center Design Standards within the existing right of way, adding bike lanes, undergrounding the power lines, providing for energy generation/distribution under the street while other utility improvements are being made, and installing street trees and new energy-efficient lighting. The application is supported by ten letters from federal legislators and City partners. Reconstructing “Main Street” is the City Council’s top priority capital project and will help attract quality development to the downtown, while making the space more attractive for our community. TIGER III grant funding is highly competitive. The City is also pursuing a Community Challenge Grant totaling \$1,000,000 sponsored by HUD (\$28 million available nationally).
- b) 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. One concept that emerged was forming a citywide Energy Efficiency District to increase both energy efficiency and economic development.
- c) Energy Efficiency Development District: A resolution to explore forming an Energy Efficiency Development District was adopted by the Mountlake Terrace City Council on April 18, 2011. The Resolution adopted by the City Council directs the City to work with potential partners, including UIG Applied Energetics and Rubenius US, in exploring the formation of an Energy Efficiency Development District. 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.

The 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. The District could be operated by a Sustainability Advisory Board or Panel. Implementing public and private partners may include utility agencies, equipment vendors, installers, community colleges, lenders, and community organizations.

The evaluation may detail and incorporate how various approaches for applying shared energy systems for providing heat and power for the re-development of the town center can be implemented as a means to reduce development costs and be incorporated within the city's plan for the civic center, Main Street improvements, and its capital improvement program for water, sewer, storm water management and power. Such districts are fairly common in Europe. With increased energy demands and conservation needs, some cities in the U.S. and Canada are also pursuing the district option.

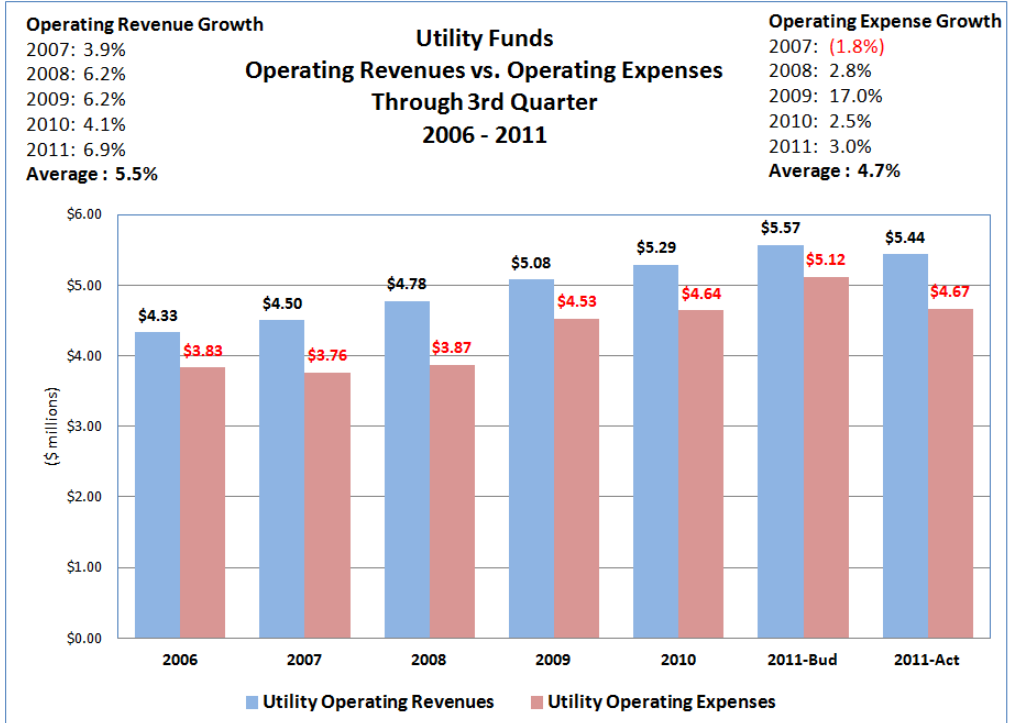
In addition to the exploration of an Energy Efficiency Development District, the City is evaluating other innovative outcomes to include:

- Fleet Management Pilot Project -- a select number of city vehicles will be identified to allow for remote diagnostics, mileage and safe driving monitoring, location tracking as well as user identification.
 - Recreation Pavilion Energy Systems Improvements -- potential to engage systems analysis for replacement and upgrading of HVAC system in Recreation Pavilion together with energy management audit for non-HVAC equipment monitoring. UIG is also pursuing building pilot projects with private property owners as well.
 - Street Light Pilot Project -- opportunity to survey street light system technical characteristics, ownership and operations for the City and Snohomish County PUD, identification of re-lamping and control applications to reduce electricity usage, lessen costs to the City and improve maintenance response and effectiveness.
- d) 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.

- e) 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. In addition, Cascade Land Conservancy (CLC) is assisting Snohomish County with improving the County's existing TDR program, and considering ways to protect more farmlands such as those along the Snohomish River. TDR may soon become a tool not only to protect farms, but also to support City projects for a more vibrant Mountlake Terrace. The State Legislature passed and the Governor signed a bill earlier this year that would allow cities with an adopted TDR program to obtain a unique type of financing for City projects (e.g., Downtown "Main Street" Revitalization Project). An update will be scheduled for City Council review in early 2012.

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 \$34,933 or 3.6% through third quarter 2011. However, operating expenditures are also under budgetary estimates; by \$123,097 or 11.9% due primarily to lower than anticipated maintenance costs.

Extra emphasis is being placed on storm water quality issues beginning this year 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 \$122,742 or 5.4% through third quarter 2011 while operating expenditures are also below budgetary estimates by \$149,732 or 7.3% due primarily to lower than anticipated maintenance costs and water acquisition expenses.

A system-wide water meter replacement is currently underway 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

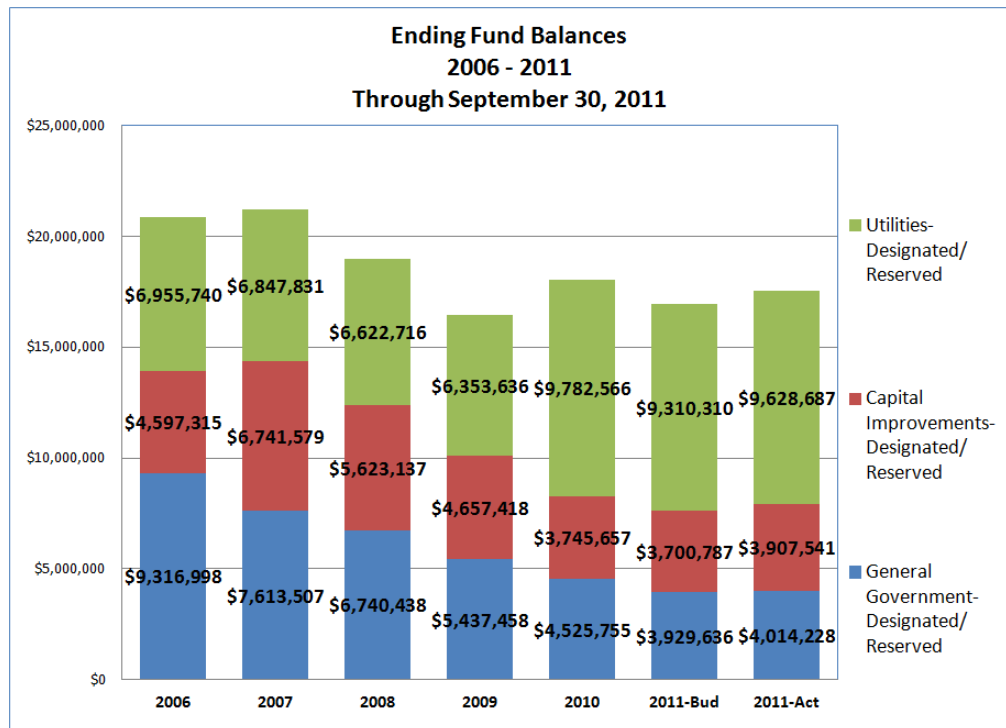
The city's Sewer Utility provides uninterrupted sewer service to residents and businesses. There are approximately 70 miles of sewer mains, 30 miles of laterals, four lift stations and 1,400 sewer maintenance access points in the city. Sewage is treated in Edmonds, where Mountlake Terrace is a part owner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

Sewer operating revenues are exceeding budgetary estimates by \$24,527 or 1.0% through third quarter 2011, while operating expenditures are under budgetary estimates by \$178,696 or 8.8% due primarily to lower than anticipated maintenance costs.

Sources & Uses Utility Funds	2006	2007	2008	2009	2010	2011			Change (bud vs. act)	
						Budget	2nd Quarter	Actual	\$	%
Beginning Fund Balances	\$7,286,594	\$6,847,767	\$6,936,129	\$6,622,716	\$ 6,353,636	\$9,782,566	\$ 9,782,566	\$ 9,782,566	\$ -	0.0%
Operating Revenues										
Storm Water	917,421	931,680	1,018,450	1,142,696	1,243,813	1,367,091	970,635	935,702	(34,933)	-3.6%
Water	2,651,866	2,529,983	2,755,605	2,799,047	2,804,444	3,187,468	2,263,102	2,140,360	(122,742)	-5.4%
Sewer	2,889,815	2,812,790	3,056,971	3,028,233	3,107,894	3,296,221	2,340,317	2,364,844	24,527	1.0%
Subtotal Operating Revenues	6,459,102	6,274,453	6,831,026	6,969,976	7,156,151	7,850,780	5,574,054	5,440,906	(133,148)	-2.4%
Operating Expenditures										
Storm Water	847,183	906,074	909,589	1,049,582	1,172,707	1,473,420	1,031,394	908,297	(123,097)	-11.9%
Water	2,432,808	2,414,703	2,362,810	2,567,598	2,463,298	2,923,969	2,046,778	1,897,046	(149,732)	-7.3%
Sewer	2,317,565	2,445,042	2,606,838	2,597,915	2,607,824	2,913,180	2,039,226	1,860,530	(178,696)	-8.8%
Subtotal Operating Expenditures	5,597,556	5,765,819	5,879,237	6,215,095	6,243,829	7,310,569	5,117,398	4,665,873	(451,525)	-8.8%
Operating Surplus (Deficit)	861,546	508,634	951,789	754,881	912,322	540,211	456,655	775,033	318,378	69.7%
Other Financing Sources										
Grants and PWTF	-	291,200	162,622	476,152	145,504	-	20,241	20,241	-	0.0%
Loan Proceeds	-	-	-	-	6,280,000	-	-	-	-	n/a
Transfer from Utility Funds	1,717,093	3,301,158	4,852,924	120,860	122,452	-	-	-	-	n/a
Subtotal Other Financing Uses	1,717,093	3,592,358	5,015,546	597,012	6,547,956	-	20,241	20,241	-	n/a
Other Financing Uses										
Construction Projects	1,300,197	904,846	1,516,706	1,620,973	4,031,348	7,822,988	949,153	949,153	-	0.0%
Transfer to Utility Funds	1,609,296	3,196,082	4,764,042	-	-	-	-	-	-	n/a
Subtotal Other Financing Uses	2,909,493	4,100,928	6,280,748	1,620,973	4,031,348	7,822,988	949,153	949,153	-	0.0%
Fund Balances										
Reserves (15% of Oper Exp)	-	-	913,941	964,409	918,207	1,008,826	1,008,826	1,008,826	-	0.0%
Designated Reserved:										
Storm Water	1,704,626	1,514,300	1,098,414	1,052,415	2,423,909	(135,195)	1,895,977	1,984,141	88,164	4.7%
Water	2,951,524	3,260,139	2,576,703	2,350,158	4,003,509	308,709	3,946,269	3,973,259	26,990	0.7%
Sewer	2,148,133	2,073,392	2,033,658	1,986,654	1,978,516	859,024	2,000,813	2,204,036	203,223	10.2%
Debt Service	151,457	-	-	-	-	458,425	458,425	458,425	-	0.0%
Total Ending Fund Balances	\$6,955,740	\$6,847,831	\$6,622,716	\$6,353,636	\$ 9,782,566	\$2,499,789	\$ 9,310,310	\$ 9,628,687	\$ 318,378	3.4%

Ending Fund Balances/Reserves

The following graph and table illustrates the City's ending fund balances between 2006 and September 30, 2011. 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.



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 2011.

Reserved/Designated Ending Fund Balances: The first component of ending fund balances, totaling \$3,441,464 at the end of third quarter 2011, are those moneys that have been earmarked for a strategic reserve fund (\$727,526), equipment replacement reserves (\$982,979), accumulated leave reserves (\$250,081), and General Fund reserves totaling 5% of operating expenditures (\$727,526). This reserve designation also include encumbrances from prior and current year (\$741,674), funds dedicated solely for tourism purposes (\$10,609), and solid waste billing exemptions (\$1,069).

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

Also included in reserved/designated ending fund balances are operating reserves for the three utility funds that total 15% of total operating expenditures (\$1,008,826) in the funds as well as utility funds reserved for construction projects (\$8,161,436) and debt service (\$458,425). All Capital (\$3,907,541) and Utility Construction Fund balances (\$8,161,436) 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 2011, budgeted contingency reserves total \$291,011; however these funds are 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 (\$281,753) in the General Fund through the end of third quarter 2011 are over the budget estimate (\$203,331) by \$78,422 -- however, this is consistent with the City's 6-year financial forecast. These funds have been set aside for future one-time capital investments and other one-time projects between 2011 and 2016 and are not available for ongoing programs and services funded as part of the six-year financial forecast.

Ending Fund Balances All Funds	2006	2007	2008	2009	2010	2011		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	\$ 697,653	\$ 727,526	\$ 727,526	\$ -	0.0%
Strategic Reserve (5% of GF Oper Exp)	916,507	959,753	995,309	720,800	727,160	731,660	727,526	(4,134)	-0.6%
Reserved/Designated									
Encumbrances	402,437	179,672	185,553	532,789	503,208	725,878	741,674	15,796	2.2%
Equipment Replacement & Reserve	2,294,889	2,307,593	2,345,407	1,584,367	1,008,393	980,835	982,979	2,144	0.2%
Hotel/Motel-Tourism	35,922	32,907	34,979	30,178	19,360	10,502	10,609	107	1.0%
Solid Waste-Billing Exemptions	58,359	61,628	40,531	27,686	9,786	2,661	1,069	(1,592)	-59.8%
Accumulated Leave Reserve	761,751	283,723	234,381	241,340	246,857	256,232	250,081	(6,151)	-2.4%
Subtotal Reserved/Designated	5,164,633	4,497,659	4,565,685	3,819,287	3,212,417	3,435,294	3,441,464	6,170	0.2%
Contingency (2% of GF Oper Exp)	-	-	-	-	-	291,011	291,011	-	0.0%
Designated/Reserved (one-time)	4,152,365	3,115,848	2,174,753	1,618,171	1,313,338	203,331	281,753	78,422	38.6%
Total General Government	\$ 9,316,998	\$ 7,613,507	\$ 6,740,438	\$ 5,437,458	\$ 4,525,755	\$ 3,929,636	\$ 4,014,228	\$ 84,592	2.2%
<i>Capital Improvement</i>									
Reserved/Designated									
P.E.G. (Cable Fees)	32,309	37,476	47,886	63,926	81,021	93,771	103,417	9,646	10.3%
Transportation Impact Fees	-	-	2,334	2,334	38,774	246,374	79,910	(166,464)	-67.6%
Park Impact Fees	56,213	56,213	10,110	6,250	62,813	197,813	157,115	(40,698)	-20.6%
Capital Improvements	4,508,793	6,647,890	5,562,807	4,584,908	3,563,049	3,162,829	3,567,099	404,270	12.8%
Total Capital Improvement	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 4,657,418	\$ 3,745,657	\$ 3,700,787	\$ 3,907,541	\$ 206,754	5.6%
<i>Utilities</i>									
Reserves (15% of Oper Exp)	-	-	913,941	964,409	918,207	1,008,826	1,008,826	-	0.0%
Designated/Reserved:									
Storm Water	1,704,626	1,514,300	1,098,414	1,052,415	2,423,909	1,895,977	1,984,141	88,164	4.7%
Water	2,951,524	3,260,139	2,576,703	2,350,158	4,003,509	3,946,269	3,973,259	26,990	0.7%
Sewer	2,148,133	2,073,392	2,033,658	1,986,654	1,978,516	2,000,813	2,204,036	203,223	10.2%
Debt Service	151,457	-	-	-	458,425	458,425	458,425	-	n/a
Total Utilities	\$ 6,955,740	\$ 6,847,831	\$ 6,622,716	\$ 6,353,636	\$ 9,782,566	\$ 9,310,310	\$ 9,628,687	\$ 318,378	3.4%
Total Ending Fund Balances	\$20,870,053	\$21,202,917	\$18,986,291	\$16,448,512	\$18,053,978	\$16,940,732	\$17,550,456	\$ 609,724	3.6%

Action Strategies and Preventative Measures Implemented

Despite the budget's conservative assumptions for revenue growth, the current economic crisis has caused us to make a new forecast even more conservative, first in October 2009, again in October 2010 and more recently in November 2011. The current financial forecast as compared to the 2008 forecast shows a loss in general government revenue totaling \$15.1 million (see page 4), meaning we have significantly tightened our budget to ensure we live within our means.

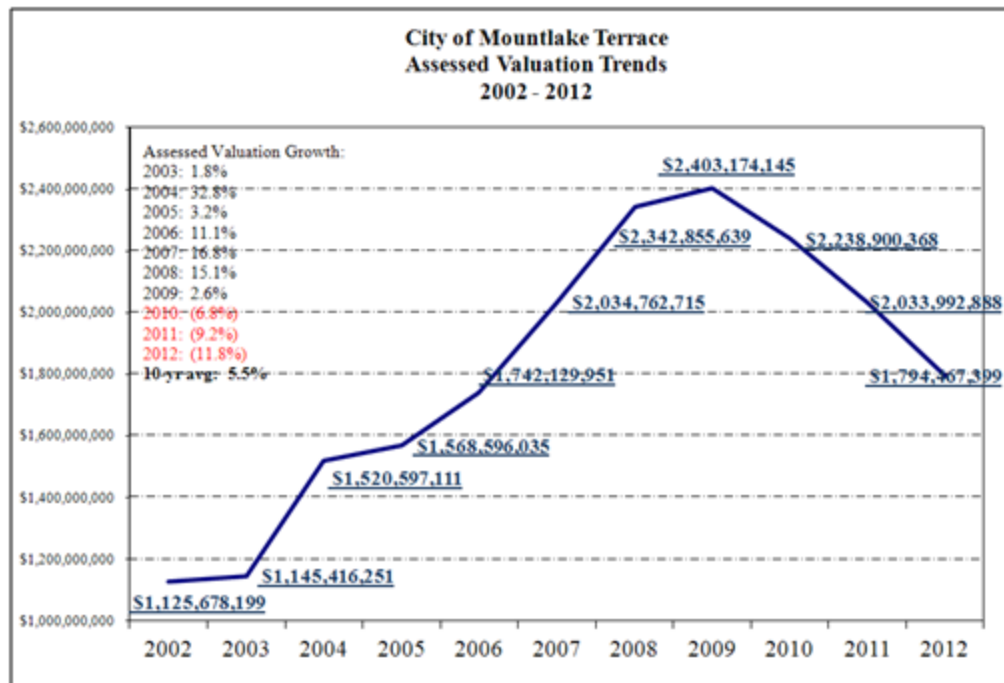
We no longer subscribe to...

"That's the way we always did it"

As is evident from this financial report and our six-year 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.

The biggest question for cities such as ours lies in the continued uncertainty about the health of the economy. Locally, regionally, nationally, and internationally cities and other local governments are cutting and eliminating key municipal services to include public safety services, as the economic downturn continues to take its toll on local government finances and revenues continue to fall.

National indicators in the property markets and consumer spending point to continued economic struggles at the local level. The continued weakness in the housing market, anemic job growth, and weak consumer confidence have created concerns that



economic recovery is years away. The following graph illustrates that our City's assessed valuation has decreased 28% the last three years and is projected to fall further in 2013 and beyond. Declining property values is translating into declining property tax revenues due to the suppressed property market.

However, until such time as the economy rebounds, which will take years or even decades to rebound, 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.

Examples of other challenges include:

- “Great Recession”
- Continued deterioration of economy that began in Dec 2007
- Change and uncertainty of economic conditions coupled with lack of economic recovery
- Uncertainty in financial and credit markets
- Housing market meltdown; falling property values
- Massive layoffs
- Dismal job reports with continued unemployment and growing under-employment (20-25%)
- Continued slowdown in consumer spending
- Consumer confidence lowest in decades
- Misery index (unemployment & inflation) highest in decades
- Recovery lag for local governments
 - Most difficult years (upwards of 10+ years) are still ahead
- Major operating revenue sources continue to fall short of projections
 - (e.g., property tax, sales tax, utility tax, gambling tax & state-shared revenues)
- State & federal budget deficits
 - (e.g., loss of state shared revenues)
- Rising employee health care and pension costs
- Underdeveloped/underutilized commercial areas (e.g., downtown revitalization efforts, economic incentives)
- Age of City’s physical infrastructure (30-50 years old)
- Unfunded capital improvement needs (e.g., Town Center Investments, Civic Center)
- “Zero-sum” environment (e.g., balancing “needs” and “wants”)

However, 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 economic uncertainty.

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 City 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, the biennial budget process in 2010, and mid-biennial budget process in 2011, revenue estimates through 2016 have been adjusted downward to reflect current economic conditions.
- 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.
- 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 the City in obtaining grants (\$7.0 million) coupled with the favorable bidding climate for public works projects (e.g., TIB, ARRA) has enabled us to reduce our General Fund and REET contributions to the Street Construction Fund.
- Fuel efficiency to include periodic reductions in gas prices that has provided some financial relief in that the current cost per gallon is less than what was anticipated in the adopted budget coupled with transition to more fuel efficient fleet (e.g., hybrid vehicles).
- Resource allocation improvements:
 - The contract for City Attorney services has been reduced to 2002 level of service.
 - Current and future positions that are vacated by attrition will not be filled with the exception of police patrol vacancies.
 - Partnership between street maintenance and park services.
 - 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 such as the Lake Ballinger/McAleer Creek Watershed Forum).
 - 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.
 - 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).

- Because of the continued deterioration of the economy and the projected ongoing loss of a key General Fund operating revenue source, an additional step included the consolidation of customer service unit with police and finance. This resulted in 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, 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.
- 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)
- We also continue to identify and pursue new ideas to supplement and stretch resources that will not only result in improved services, but also cost savings. Some examples currently underway, all which are consistent with City Council goals, include:
 - Regional Fire Protection Services Authority (RFPSA);
 - Restrictive General Fund spending (see above -- other than employee compensation & contract mandates) that remains in place indefinitely;
 - Ongoing focus on grant opportunities;
 - Opportunities for volunteers and interns;
 - Computer server virtualization;
 - Jail services agreement with Okanogan County;
 - Thermoplastic street marking equipment versus contracting;
 - Forest Crest Playfield improvements – talking with MTYAA about partnering opportunities;
 - Animal shelter provider – changing to PAWS;
 - Fleet Management pilot project;
 - Recreation Pavilion Energy Systems Improvements;
 - Street Light pilot project;
 - Emergency Operation Center (EOC) at Operations Facility, which reduces costs at new Civic Center (recently awarded \$250,000 Homeland Security grant); and
 - Identification of finances (e.g., REET, one-time General Fund proceeds) to pay for interim city hall versus accessing line-of-credit.

For the City of Mountlake Terrace, our community is in an enviable position of being able 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.

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.

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, 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. The use of one-time reserves would only significantly weaken the City's finances since the reserves are not a permanent solution or even a short-term tool to address the current economic crisis that is expected to continue for years. Using reserves would also weaken the City's cash flow and its ability to meet existing payroll and claims requirements.

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 -- Third Quarter 2011 Financial Report Detail
- Attachment B -- Third Quarter 2011 Performance Measures