

MEMORANDUM

TO: City Council

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

DATE: June 20, 2011

SUBJECT: **Quarterly Financial Report & Performance Measures
First Quarter -- January through March 2011**

Overview

This report is intended to provide an overview of financial activity that has taken place from January 1, 2011 through March 31, 2011. The City's finances are divided into three key components: General Government Funds, Capital Improvement Funds and Utility Funds. The financial report focuses mainly on activity incurred in the following funds: General, Street and Recreation as well as the City's Capital Improvement Funds, Utility Funds, and Ending Fund Balances/Reserves.

The Summary of Sources and Uses (Attachment A) captures financial activity by fund through March 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 carry-forward amendments that were considered and adopted by the Council in May, 2011. Attachment B details performance measurement activity for the years 2005 through 2010.

In summary, first quarter 2011 was another successful quarter for the City of Mountlake Terrace, both from an operational perspective and financial one, which reflects sound financial and management policies practiced by the City. Overall, most financial projections are tracking consistent with the 2011 budget and the six-year financial forecast.

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

Mountlake Terrace Receives High Credit Rating

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

S&P assigned the city a 'AA' rating with a stable outlook, noting that the city has sound financial policies and practices, including quarterly financial performance reviews and a six-year forecasting model. The city's first-ever rating by Standard & Poor's, a 'AA' rating indicates the

city is a quality borrower with very strong capacity to meet its financial commitments. The S&P report commends the city for its resourcefulness in responding to changing conditions. The report states, “The stable outlook reflects what we believe is a robust and institutionalized array of management practices that provide a framework for the utility to identify and respond to unexpected financial challenges.”

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

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

Annual Audit

Our 2010 audit, in partnership with the State Auditor’s Office (SAO) is nearly completed. We once again prepared a Comprehensive Annual Financial Report (CAFR), which goes beyond the financial reporting, required by both the SAO and those, required as part of generally accepted accounting principles (GAAP). The 2010 CAFR is expected to be completed by the end of this month.

The result of this increased financial reporting is that for the fourth year in a row, the City has been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA) for our 2006, 2007, 2008, and 2009 comprehensive annual financial reports (CAFRs). The Certificate of Achievements recognizes the City for its excellence in financial reporting and is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by the City. The CAFR demonstrates a constructive “spirit of full disclosure” to clearly communicate the City’s financial story and motivates potential users and user groups to read the CAFR.

The City of Mountlake Terrace is one of only about 33 cities in Washington State to receive a certificate and is only one of 21 cities statewide to receive certificates for both the CAFR and the Distinguished Budget Award from GFOA. Only 5% of cities nationwide (1,809 of 36,010) receive the award. This award along with our Distinguished Budget Award further illustrates the City’s commitment to the highest financial integrity, accountability and reporting for its citizens.

Executive Summary

The good news for the City of Mountlake Terrace is that once again we have achieved our financial and operational objectives for another quarter. We have now endured three plus years (December 2007-March 2011) of the most difficult financial times in generations.

While the budget difficulties facing states and the federal government are getting a lot of attention, we hear much less about the financial challenges of cities and other local governments. For example declining house values translate into declining property tax revenues. In response to worsening budget shortfalls, cities and other government agencies are laying off employees by the thousands, reducing and eliminating key municipal services, delaying or canceling infrastructure projects, and making cuts to public safety services.

But these local governments, such as ours, provide critical public services and even though the economy is improving, the financial crisis facing cities and other local governments will continue for years with the toughest times still to come. 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 ever return to the vibrant form of the mid-2000's.

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

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

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

We have maintained fiscal discipline while maintaining services during the most turbulent times in recent history primarily because the City has taken a proactive approach to mitigate the downward trend in revenue collections. For example, the City continues to proactively pursue and obtain state and federal funding to upgrade our aging infrastructure with new construction, which in turn reduces what residents have to pay locally. The City also continues to focus on a wide range of private, public and transit economic development initiatives that all serve as catalysts for the revitalization of our community, particularly in the Town Center. This level of development activity in our city, even in an economic downturn as severe as this one, reflects very positively upon our community.

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

Of course, Mountlake Terrace is no exception as the economic recession continues to negatively impact City revenues, particularly General Fund revenues, which funds key municipal services such as police, jail, court, fire, EMS, streets, parks, and community and economic development. Thus, it is imperative that we continue with our proactive approach on controlling costs since revenue collections are not expected to increase or recover anytime in the near future. We will continue with a focus on controlling costs along with others we implemented in mid-2008 to

mitigate the impact of the recession to ensure we meet our key operational and financial objectives in 2011 and beyond just as we did in 2008, 2009, and 2010.

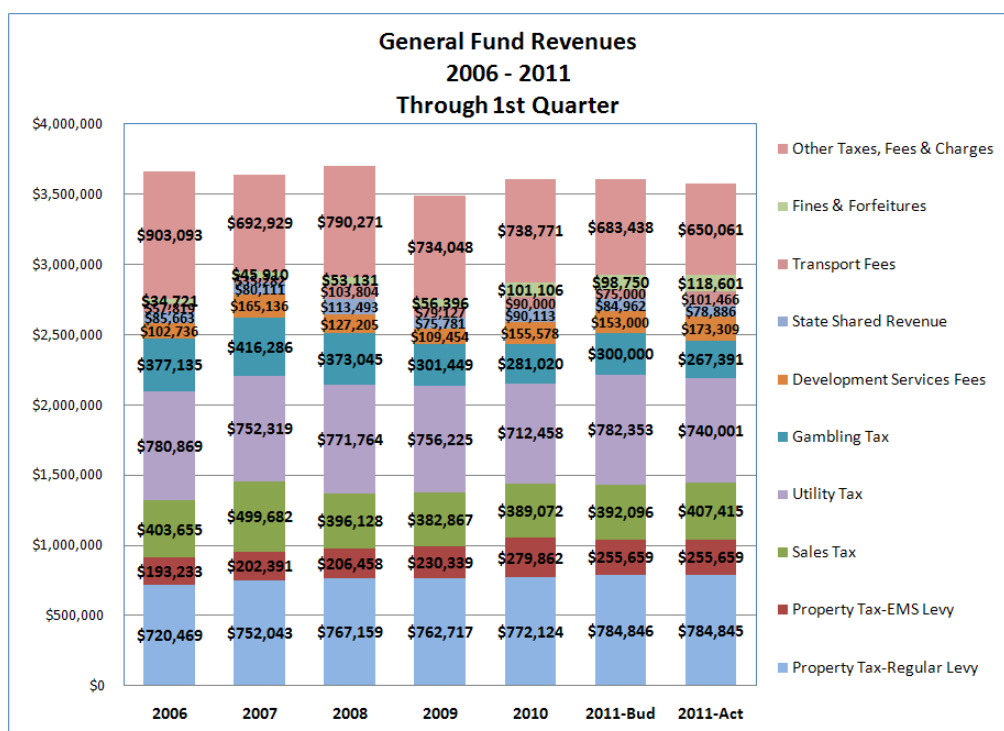
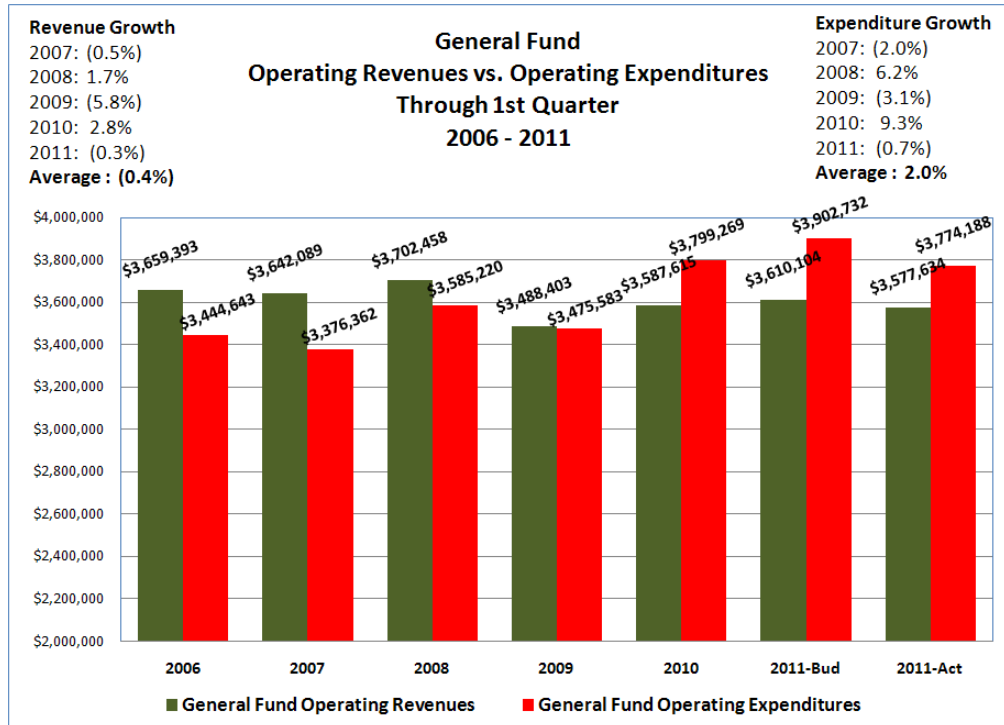
General Government Funds

General Government Funds, which accounts for municipal services such as police, jail, court, fire, EMS, streets, parks, recreation, land use and zoning, planning, development services, 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 (\$3,577,634) collected in first quarter 2011 is slightly below the budget estimate (\$3,610,104) by \$32,470 or 0.9%. However, the shortfall is offset by operating department expenditures savings. On the other hand, total general government



revenues (\$4,446,287) are above the budget estimate (\$4,409,737) by \$36,550 or 0.8%, due primarily to increased recreation fees, which are \$79,815 or 11.2% above budgetary projections.

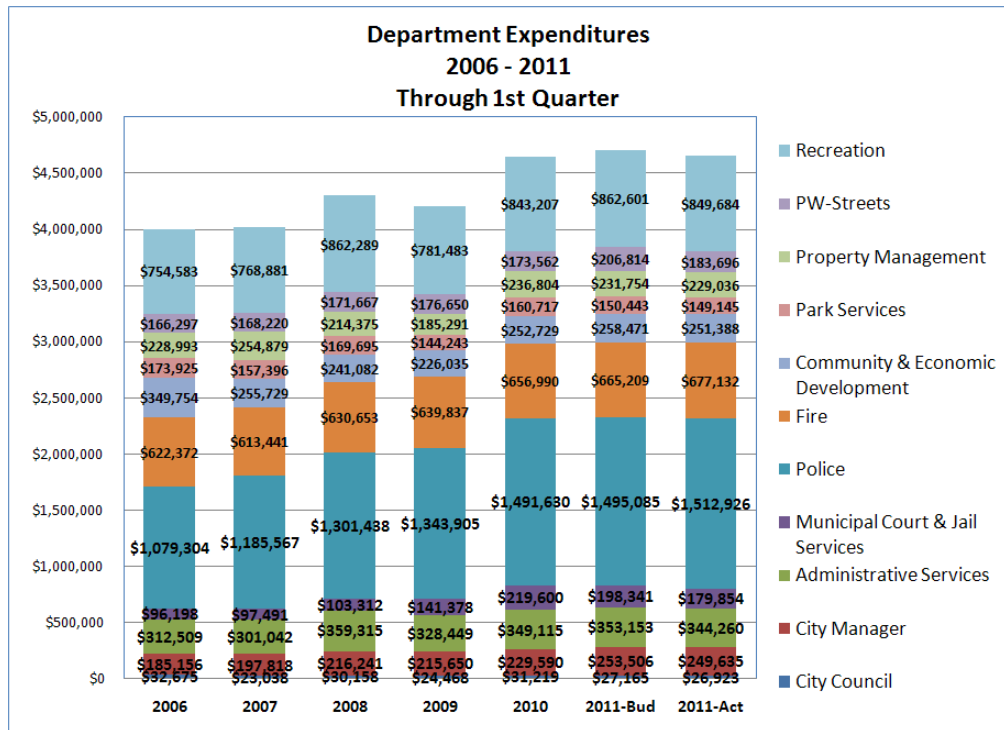
Resources by Fund General Government	2006	2007	2008	2009	2010	2011			Change (bud vs. act)	
						Budget	1st Quarter	Actual	\$	%
Beginning Fund Balances	\$ 9,464,261	\$ 9,329,323	\$ 7,613,507	\$ 6,740,438	\$ 5,437,458	\$ 4,525,756	\$ 4,525,756	\$ 4,525,756	\$ -	0.0%
General										
Property Tax	3,722,059	3,722,182	3,787,483	3,859,928	4,174,416	4,162,017	1,040,504	1,040,504	(0)	0.0%
Sales Tax	1,704,801	1,756,581	1,712,184	1,648,902	1,666,568	1,629,846	392,096	407,415	15,319	3.9%
Utility Tax	2,700,443	2,823,206	2,897,238	2,896,446	2,763,858	3,129,413	782,353	740,001	(42,352)	-5.4%
Gambling Tax	1,681,265	1,609,601	1,338,964	1,036,730	1,200,928	1,200,000	300,000	267,391	(32,609)	-10.9%
Other Taxes	141,588	138,687	138,814	75,458	90,847	88,000	22,000	25,934	3,934	17.9%
Business & Animal Licenses	127,184	139,758	151,698	103,870	111,256	140,000	35,000	62,498	27,498	78.6%
Development Services Fees	638,875	661,820	515,504	556,047	658,326	765,000	153,000	173,309	20,309	13.3%
Cable & Solid Waste Franchise Fees	431,546	466,090	666,366	427,758	527,672	417,907	104,477	134,027	29,550	28.3%
State Shared & Intergov't	569,274	521,996	532,413	487,837	532,494	631,318	157,830	89,348	(68,482)	-43.4%
Transport Fees	270,067	311,483	377,845	377,134	299,104	300,000	75,000	101,466	26,466	35.3%
Fines & Forfeitures	242,439	263,760	295,775	330,563	423,560	395,000	98,750	118,601	19,851	20.1%
Other Fees & Charges	2,411,950	1,769,874	1,734,268	1,882,852	1,899,687	1,746,376	436,594	414,030	(22,564)	-5.2%
Investment Income	211,529	307,416	190,364	117,668	28,181	50,000	12,500	3,110	(9,390)	-75.1%
Total General Fund Operating Revenues	14,853,020	14,492,454	14,338,916	13,801,193	14,376,897	14,654,877	3,610,104	3,577,634	(32,470)	-0.9%
Street Operating	367,879	379,475	358,187	343,282	328,652	331,527	82,882	71,853	(11,029)	-13.3%
Recreation	2,583,003	2,502,136	2,696,972	2,607,733	2,797,313	2,860,005	715,001	794,816	79,815	11.2%
Debt Service	201,204	192,197	168,371	9,376	11,872	7,000	1,750	1,984	234	13.4%
Total General Govt Operating Revenues	18,005,106	17,566,262	17,562,446	16,761,584	17,514,734	17,853,409	4,409,737	4,446,287	36,550	0.8%
Other Financing Sources										
Strategic Reserve	35,297	43,246	35,556	25,492	16,360	31,000	7,750	3,234	(4,516)	-58.3%
Fleet Management	769,249	775,957	825,413	727,802	704,208	739,780	184,945	137,468	(47,477)	-25.7%
Hotel/Motel Tax	26,775	21,985	27,072	23,304	18,942	17,000	4,250	3,953	(297)	-7.0%
Solid Waste Service	17,500	17,500	-	17,500	17,500	25,000	6,250	6,250	-	0.0%
Accumulated Leave Reserve	29,337	21,972	10,226	6,959	5,517	12,500	3,125	1,107	(2,018)	-64.6%
General	438,680	209,110	98,938	40,077	236,071	20,000	5,000	20,140	15,140	302.8%
Street Operating	542,851	247,918	476,132	427,100	477,934	488,709	122,177	105,106	(17,071)	-14.0%
Recreation	604,854	696,617	682,363	622,229	488,915	589,712	147,428	48,783	(98,645)	-66.9%
Debt Service	628,825	623,700	637,407	846,613	395,836	445,078	111,270	111,270	-	0.0%
Fleet Management	3,911	-	35,948	79,455	77,512	6,500	1,625	3,000	1,375	84.6%
Total Other Financing Sources	3,097,279	2,658,005	2,829,055	2,816,531	2,438,795	2,375,279	593,820	440,311	(153,509)	-25.9%
Total All General Government Funds	\$30,566,646	\$29,553,590	\$28,005,008	\$26,318,553	\$25,390,987	\$24,754,444	\$ 9,529,313	\$ 9,412,354	\$ (116,959)	-1.2%

Compared with 2010 collections (\$3,587,615), operating revenue collections are flat, having decreased \$9,981 or 0.3%. Some 2011 revenues are exceeding budgetary expectations with the exception of utility taxes, gambling taxes, and state-shared revenues, which 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 (\$9,412,354) are below the budget estimate (\$9,529,313) by \$116,959 or 1.2%. As noted above, this shortfall is offset by expenditures savings. 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 94% for first quarter 2011 resulting in a reduced General Fund transfer totaling \$2,533 (excludes required debt service payment), which in turn translated into General Fund cost savings totaling \$98,645. The Public Works Department, which includes Fleet Management achieved General Fund cost savings totaling \$65,548. These are examples that help offset the ongoing decrease in General Fund revenue collections.

Expenditures

General Fund operating expenditures (\$3,774,188) during first quarter 2011 are below the budget estimate (\$3,902,732) by \$128,544 or 3.3%, which offsets the lower than anticipated general fund revenue collections. Likewise, total general government expenditures (\$4,816,678) are below the budget estimate (\$4,984,254) by \$167,576 or 3.4%, which also offsets the lower than anticipated general government revenue collections. Compared with 2010 general fund expenditure activity (\$3,799,269), operating expenditures have decreased \$25,081 or 0.7%. These savings are attributable to the continued and ongoing financial prudence being practiced by our department directors and their staff that includes the elimination of all discretionary spending such as supplies, travel, training, overtime, equipment, temporary help, and non-essential positions.



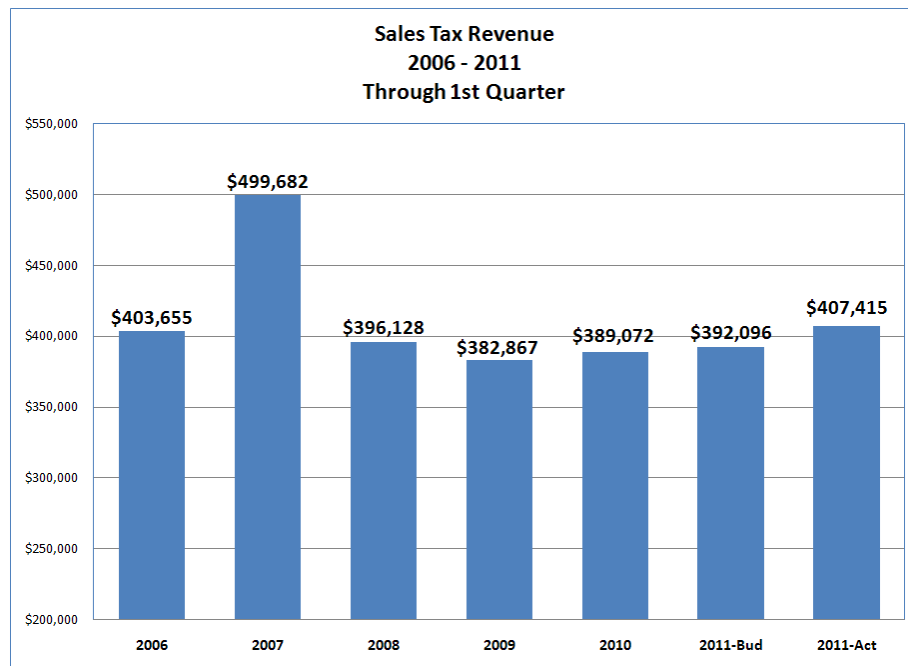
Expenditures by Fund	2006	2007	2008	2009	2010	2011			Change (bud vs. act)		
						Budget	1st Quarter	Actual	\$	%	
General Government											
General											
City Council	incl with CM	\$ 96,659	\$ 104,753	\$ 92,979	\$ 97,464	\$ 104,480	\$ 27,165	\$ 26,923	\$ (242)	-0.9%	
City Manager		707,667	671,925	719,173	696,687	713,474	726,808	253,506	249,635	(3,871)	-1.5%
Administrative Services		1,269,046	1,374,134	1,460,074	1,331,808	1,313,125	1,358,282	353,153	344,260	(8,893)	-2.5%
Municipal Court & Jail Services		708,455	673,956	710,570	794,770	765,692	793,364	198,341	179,854	(18,487)	-9.3%
Police		4,285,179	4,527,696	5,171,253	4,996,051	5,326,137	5,436,671	1,495,085	1,512,926	17,841	1.2%
Fire		2,156,172	2,224,941	2,289,888	2,411,618	2,468,244	2,558,498	665,209	677,132	11,923	1.8%
Community & Economic Development		1,437,758	1,034,661	1,038,427	831,051	908,806	1,033,882	258,471	251,388	(7,083)	-2.7%
Park Services		772,235	688,783	752,220	630,125	607,401	601,772	150,443	149,145	(1,298)	-0.9%
Property Management		1,074,654	910,583	860,196	808,120	785,874	858,347	231,754	229,036	(2,718)	-1.2%
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	122,177	105,106	(17,071)	-14.0%
Oper Transfer Out-Recreation		419,854	511,617	497,363	437,229	303,915	404,712	101,178	2,533	(98,645)	-97.5%
Oper Transfer Out- Rec Debt Svc		185,000	185,000	185,000	185,000	185,000	185,000	46,250	46,250	-	0.0%
Total General Fund		13,895,360	13,444,323	14,575,206	13,642,538	13,953,066	14,550,525	3,902,732	3,774,188	(128,544)	-3.3%
Operating Surplus/(Deficit)		957,660	1,048,131	(236,290)	158,655	423,831	104,352	(292,628)	(196,554)	96,074	-32.8%
Street Operating		905,215	808,987	825,968	777,237	804,343	827,257	206,814	183,696	(23,118)	-11.2%
Recreation		3,208,442	3,202,052	3,333,259	3,255,891	3,274,231	3,462,395	865,599	849,685	(15,914)	-1.8%
Debt Service		823,478	822,448	805,778	454,965	460,849	520,679	9,109	9,109	-	0.0%
Total General Government Funds		18,832,495	18,277,810	19,540,211	18,130,631	18,492,489	19,360,856	4,984,254	4,816,678	(167,576)	-3.4%
Other Financing Uses											
Fleet Management		628,542	763,253	823,547	1,568,298	1,357,694	663,053	165,763	173,194	7,431	4.5%
Hotel/Motel Tax		19,302	25,000	25,000	28,105	29,760	23,000	-	-	-	n/a
Solid Waste Service		25,199	14,231	21,097	30,345	35,400	34,500	8,625	5,738	(2,887)	-33.5%
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	135,473	135,473	-	0.0%
Strategic Reserve		419,407	-	-	300,000	10,000	25,000	6,250	6,250	-	0.0%
Other Financing Uses		2,417,153	3,662,273	1,724,359	2,750,464	2,372,743	1,906,771	316,111	320,655	4,544	1.4%
Total All General Government Funds		\$21,249,648	\$21,940,083	\$21,264,570	\$20,881,095	\$20,865,232	\$21,267,627	\$ 5,300,365	\$ 5,137,333	\$ (163,032)	-3.1%

All city departments are within their allocated 2011 budgets, with the exception of police and fire, which are exceeding budgetary estimates by a slight 1.2% and 1.8%, respectively. Operating transfers to the Street Operating Fund and Recreation Fund coupled with Fleet Management Fund expenditures are below budget, reflecting again the financial prudence being practiced by department directors and their staff. The result is that while our major revenue collections continue to slow, we have put in measures that are working to ensure: 1) we live within our means; 2) we maintain an positive operating surplus (no use of one-time funds for ongoing programs and services); 3) we attain our bottom-line financial objectives to ensure the financial integrity and stability of the City; and 4) we ensure that basic municipal services that are provided to our citizens are not reduced.

Local Retail Sales Tax

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

Actual sales tax proceeds through March 2011 total \$407,415, which is \$15,319 or 3.9% above the budget estimate (\$392,096).

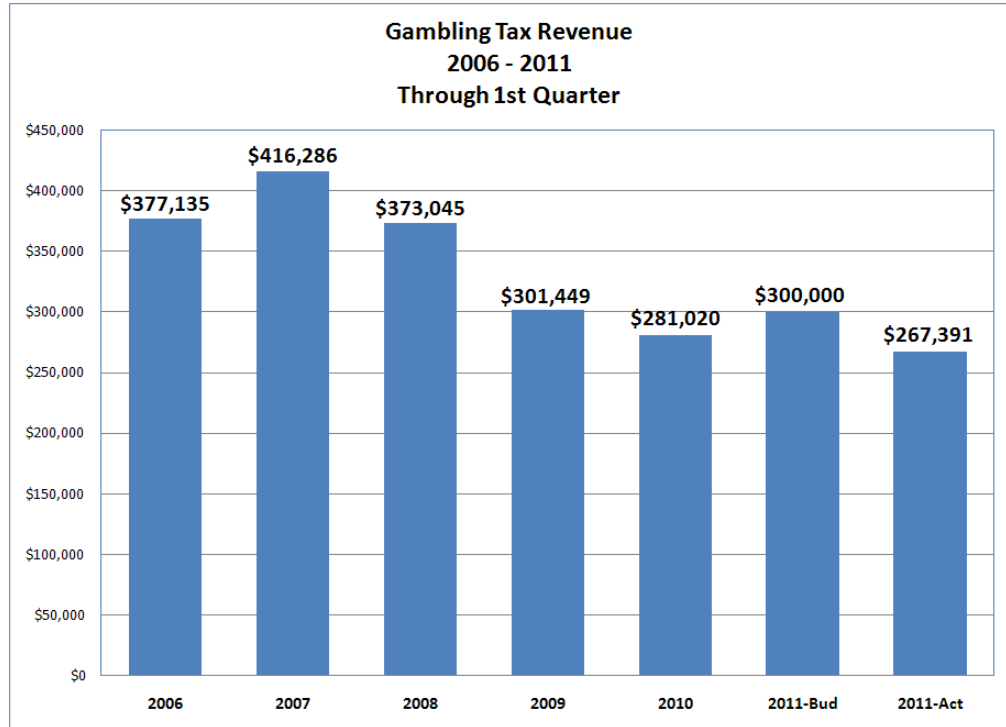


Compared to collections in 2010 (\$389,072), sales tax collections have increased \$18,343 or 4.7%. The increased collections are attributable primarily to an uptick in construction activity. This activity is cyclical in nature and recent increases are driven by public improvements (e.g., Sound Transit's Freeway Station) versus private investments, which still lag compared to historical trends. However, we still lag far behind collections through first quarter for 2006 and 2007. 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	-		
May	138,482	123,979	123,005	129,478	121,371	121,043	-		
June	151,226	161,593	153,441	132,794	154,155	147,882	-		
July	138,361	126,952	139,119	132,444	140,414	130,055	-		
August	140,179	133,653	132,166	122,100	134,140	126,796	-		
September	155,523	163,049	155,999	147,461	139,862	149,160	-		
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	\$ 407,415	\$ 15,319	3.9%

Gambling Tax

The following graph and table summarizes gambling tax revenue collections for first quarter between 2006 and 2010. Through first quarter 2011, gambling tax collections totaled \$267,391, which is \$32,609, or 10.9% below the budget estimate (\$300,000).



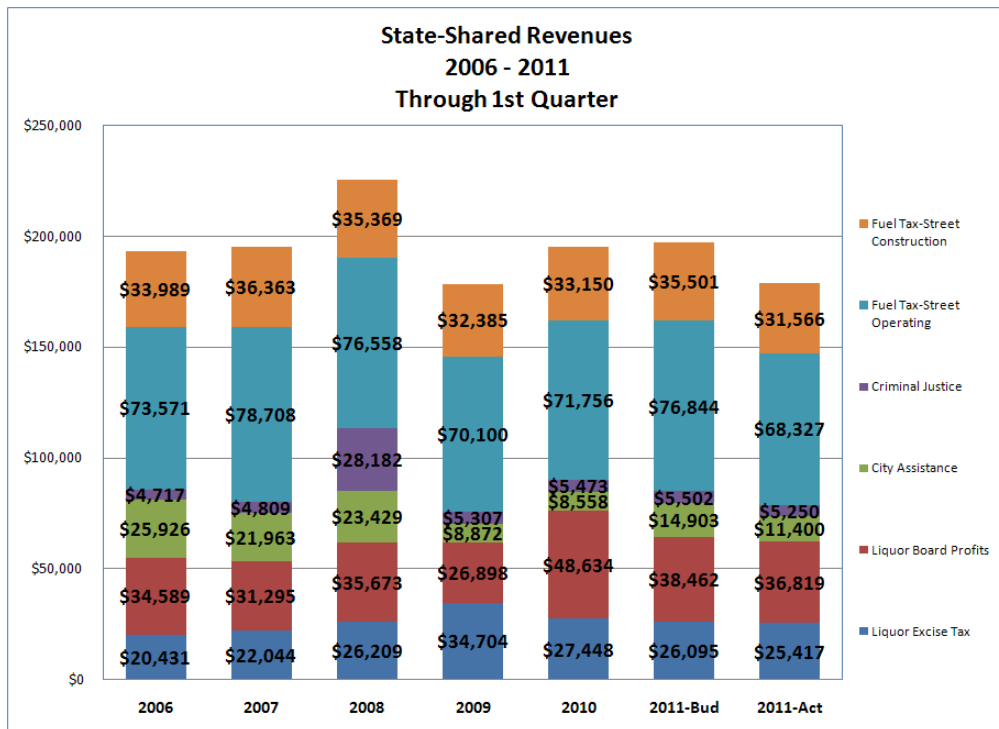
Gambling Taxes	2006	2007	2008	2009	2010	2011		Change (bud vs. act)	
						Budget	Actual	\$	%
<i>Gambling Business</i>									
Crazy Moose Casino	\$ 105,139	\$ 143,075	\$ 138,473	\$ 156,489	\$ 139,884	\$ 157,000	\$ 154,421	\$ (2,579)	-1.6%
Red Dragon Casino	118,903	127,186	131,655	99,676	102,461	108,000	81,182	(26,818)	-24.8%
Silver Dollar Casino	90,473	85,671	54,682	-	-	-	-	-	n/a
Seattle Junior Hockey	39,442	44,419	32,144	23,097	22,971	19,000	18,910	(90)	-0.5%
Other Restaurants, Pubs	23,178	15,935	16,091	22,187	15,704	16,000	12,878	(3,122)	-19.5%
Total Gambling Business	\$ 377,135	\$ 416,286	\$ 373,045	\$ 301,449	\$ 281,020	\$ 300,000	\$ 267,391	\$ (32,609)	-10.9%

Compared to 2010 activity (\$281,020), gambling tax collections have decreased \$13,629, or 4.8%. Collections for this very volatile general fund revenue still lag far behind collections for 2006 through 2008.

Of particular concern is the City's reliance on gambling taxes for basic municipal services – an estimated total of 8.2% 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 impacted in the near future.

State-Shared Revenues

The following graph and table presents a comparison of State-Shared revenues received for first quarter between 2006 and 2011. State-shared revenues totaled \$178,779 through first quarter 2011, which is \$18,528, or 9.4% below the budget estimate (\$197,307). The decrease is attributable to current economic conditions.



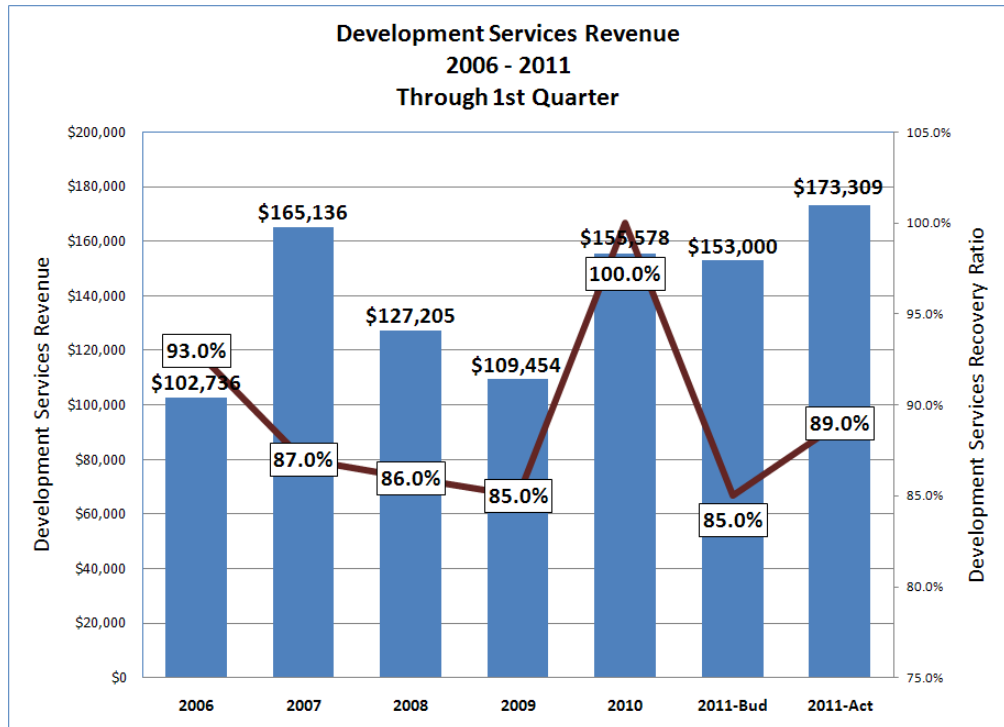
For example, City Assistance funds come from a portion of the State's real estate excise tax. The State's REET collections have been negatively impacted due to the current economic conditions – the result is less City Assistance funds. Similarly, fuel tax dollars that are required by state law to be used for street operations and construction are below projections due to a decrease in fuel consumption.

However, the decrease in fuel tax receipts is offset with additional revenues dedicated specifically for street construction (e.g., unanticipated state & federal funds and investment income) as well as operational savings in the Public Works Department. Some state-shared revenue collections still lag compared to collections in previous years.

State-Shared Revenues Source	2006	2007	2008	2009	2010	2011		Change (bud vs. act)	
						Budget	Actual	\$	%
General Fund									
Liquor Excise Tax	\$ 20,431	\$ 22,044	\$ 26,209	\$ 34,704	\$ 27,448	\$ 26,095	\$ 25,417	\$ (678)	-2.6%
Liquor Board Profits	34,589	31,295	35,673	26,898	48,634	38,462	36,819	(1,643)	-4.3%
City Assistance	25,926	21,963	23,429	8,872	8,558	14,903	11,400	(3,503)	-23.5%
Criminal Justice	4,717	4,809	28,182	5,307	5,473	5,502	5,250	(252)	-4.6%
Total General Fund	\$ 85,663	\$ 80,111	\$ 113,493	\$ 75,781	\$ 90,113	\$ 84,962	\$ 78,886	\$ (6,076)	-7.2%
Street Operating Fund									
Fuel Tax-Street Operating	73,571	78,708	76,558	70,100	71,756	76,844	68,327	(8,517)	-11.1%
Total Street Operating Fund	\$ 73,571	\$ 78,708	\$ 76,558	\$ 70,100	\$ 71,756	\$ 76,844	\$ 68,327	\$ (8,517)	-11.1%
Street Construction Fund									
Fuel Tax-Street Construction	33,989	36,363	35,369	32,385	33,150	35,501	31,566	(3,935)	-11.1%
Total Street Construction Fund	\$ 33,989	\$ 36,363	\$ 35,369	\$ 32,385	\$ 33,150	\$ 35,501	\$ 31,566	\$ (3,935)	-11.1%
Total State-Shared Revenue	\$ 193,223	\$ 195,182	\$ 225,420	\$ 178,266	\$ 195,019	\$ 197,307	\$ 178,779	\$ (18,528)	-9.4%

Development Services Fees

The following graph and table illustrate development services activity to include building permits, engineering, and plan check/zoning fee activity for first quarter between 2006 and 2011. These fees fund the City's development services program, since the General



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

Overall, development services fees collected in first quarter 2011 totaled \$173,309, which is \$20,309 or 13.3% above the budget estimate (\$153,000). Compared with 2010 activity (\$155,578), development services fee revenue has increased \$17,731 or 11.4%.

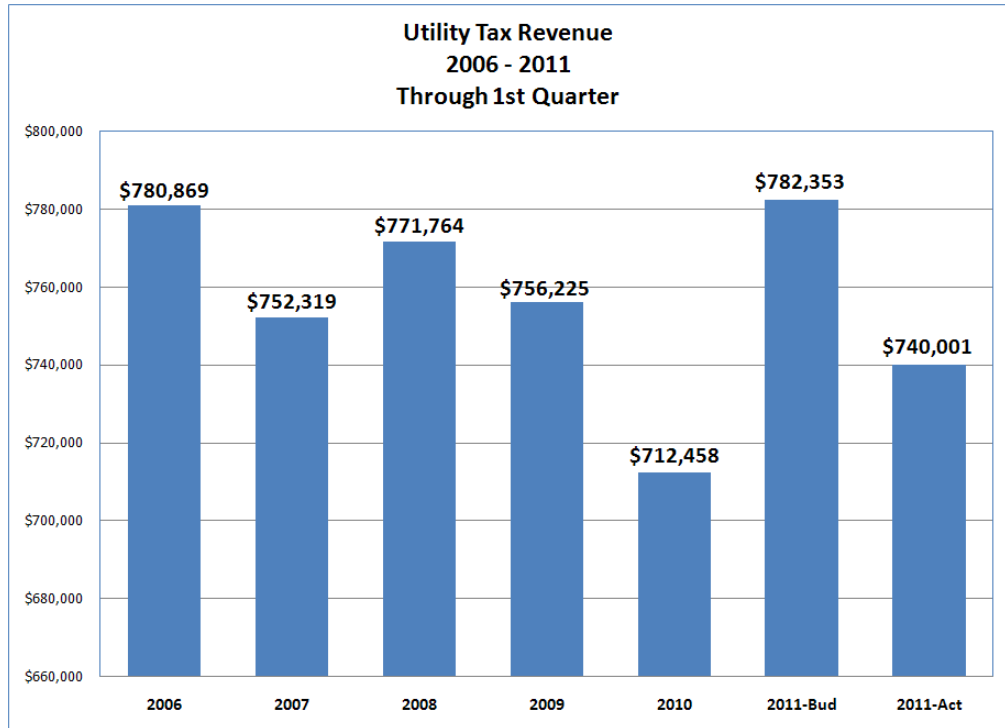
Development Services Source	2006	2007	2008	2009	2010	2011		Change (bud vs. act)	
						Budget	Actual	\$	%
Building Permits	\$ 44,504	\$ 53,587	\$ 43,101	\$ 47,851	\$ 64,634	\$ 70,000	\$ 75,297	\$ 5,297	7.6%
Engineering Fees	26,840	58,465	25,264	10,685	53,255	30,000	16,967	(13,033)	-43.4%
Plan Check/Zoning Fees	31,392	53,084	58,840	50,918	37,689	53,000	81,045	28,045	52.9%
Total Development Services	\$ 102,736	\$ 165,136	\$ 127,205	\$ 109,454	\$ 155,578	\$ 153,000	\$ 173,309	\$ 20,309	13.3%

In addition, our development services program is realizing expenditure savings. The Community and Economic Development Department's operating expenditures are \$7,083 or 2.7% below the estimated budget. This is further reflected by a recovery ratio of 89%.

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 for first quarter between 2006 and 2011. Through first quarter 2011, utility tax collections totaled \$740,001, which is \$42,352, or 5.4% below the budget estimate (\$782,353).



Compared to 2010 activity (\$712,458), utility tax collections have increased \$27,543 or 3.9%, however collections still lag significantly 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	\$ 102,301	\$ 121,537	\$ 110,875	\$ 132,775	\$ 85,872	\$ 77,500	\$ 107,838	\$ 30,338	39.1%
Solid Waste	55,471	58,242	57,409	50,181	49,751	63,125	50,341	(12,784)	-20.3%
Telephone	215,670	167,151	181,395	160,430	173,255	200,000	150,082	(49,918)	-25.0%
Electricity	203,144	220,377	218,777	214,119	204,650	184,000	209,516	25,516	13.9%
Cable	94,367	49,315	51,660	49,664	48,872	50,000	48,253	(1,747)	-3.5%
City Utilities	109,916	135,697	151,648	149,056	150,058	207,728	173,971	(33,757)	-16.3%
Total Utility Tax Revenues	\$ 780,869	\$ 752,319	\$ 771,764	\$ 756,225	\$ 712,458	\$ 782,353	\$ 740,001	\$ (42,352)	-5.4%

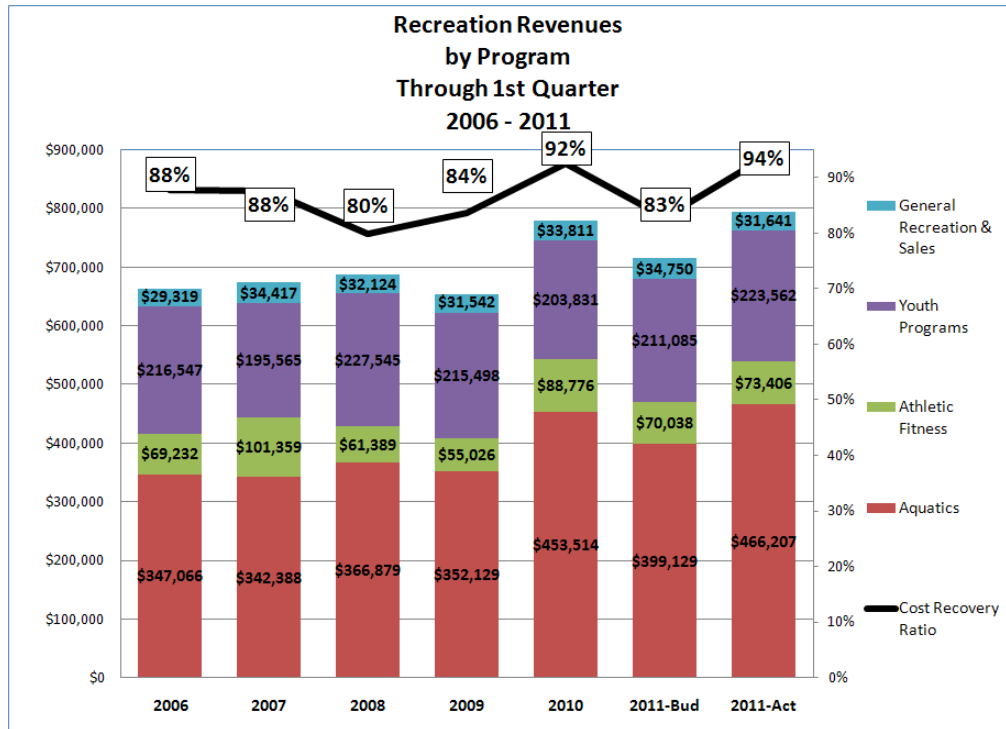
Recreation Program

The following graph and table summarize recreation activity for first quarter 2006 through 2011.

Through first quarter 2011, recreation fee collections totaled \$794,816, which is \$79,815, or 11.2% above the budget estimate (\$715,001).

Compared to 2010 activity (\$779,932), recreation fee collections have increased by \$14,884, or 1.9%. This increase is most likely attributable to the closure of other facilities in the area coupled with clients taking advantage of our Recreation Pavilion, a locally and nationally recognized community amenity.

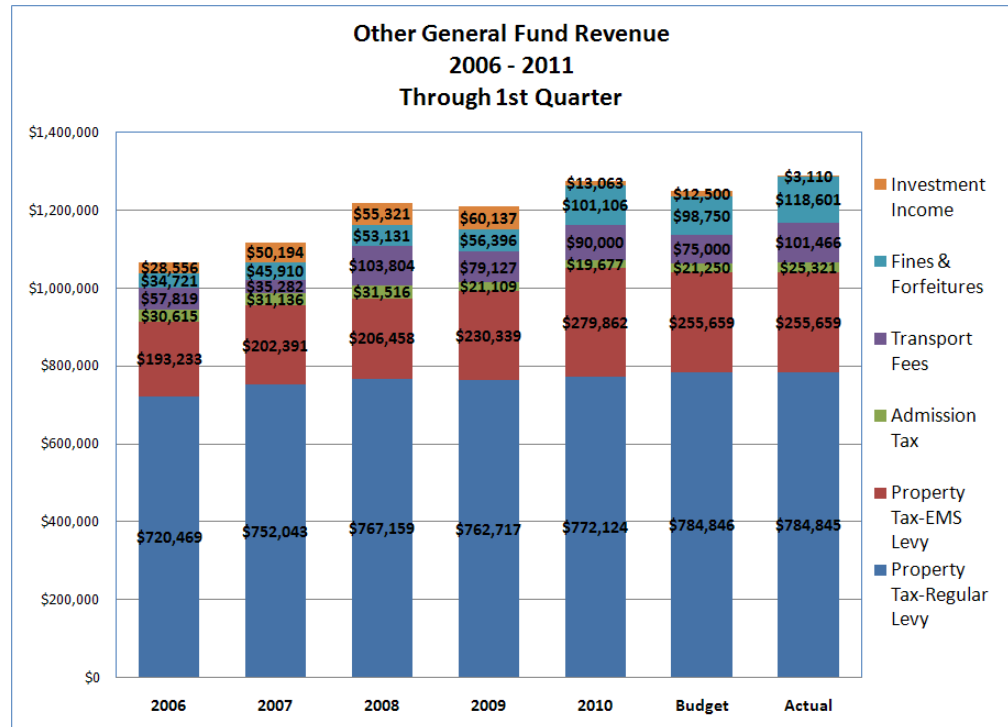
In addition, recreation program costs (\$849,684) are under the budget estimate (\$865,599) by \$15,915 or 1.8%, reflecting the financial prudence being practiced by the Recreation Department. The result of this is that the recreation program's cost recovery ratio is 94%, the highest than any previous quarter in recent history.



Recreation Program Source & Uses	2006	2007	2008	2009	2010	2011		Change (bud vs. act)	
						Budget	Actual	\$	%
Recreation Fees									
Aquatics	\$ 347,066	\$ 342,388	\$ 366,879	\$ 352,129	\$ 453,514	\$ 399,129	\$ 466,207	\$ 67,078	16.8%
Athletic Fitness	69,232	101,359	61,389	55,026	88,776	70,038	73,406	3,369	4.8%
Youth Programs	216,547	195,565	227,545	215,498	203,831	211,085	223,562	12,477	5.9%
General Recreation & Sales	29,319	34,417	32,124	31,542	33,811	34,750	31,641	(3,109)	-8.9%
Program Fees	\$ 662,164	\$ 673,729	\$ 687,937	\$ 654,195	\$ 779,932	\$ 715,001	\$ 794,816	\$ 79,815	11.2%
Recreation Program									
Aquatics	\$ 372,151	\$ 405,216	\$ 439,614	\$ 350,914	\$ 395,078	\$ 424,143	\$ 456,446	\$ 32,303	7.6%
Athletic Fitness	74,443	58,086	79,174	55,397	70,965	94,696	84,681	(10,015)	-10.6%
Youth Programs	256,074	253,608	292,213	323,478	325,311	295,352	258,049	(37,303)	-12.6%
General Recreation	5,665	5,721	5,038	5,444	5,603	5,158	4,258	(900)	-17.4%
Debt Service	46,250	46,250	46,250	46,250	46,250	46,250	46,250	-	0.0%
Program Costs	\$ 754,583	\$ 768,881	\$ 862,289	\$ 781,483	\$ 843,207	\$ 865,599	\$ 849,684	\$ (15,915)	-1.8%
General Fund Subsidy	\$ (92,419)	\$ (95,152)	\$ (174,352)	\$ (127,288)	\$ (63,275)	\$ (150,597)	\$ (54,868)	\$ 95,729	-63.6%
Cost Recovery Ratio	88%	88%	80%	84%	92%	83%	94%	10.9%	13.2%

Other General Fund Revenue

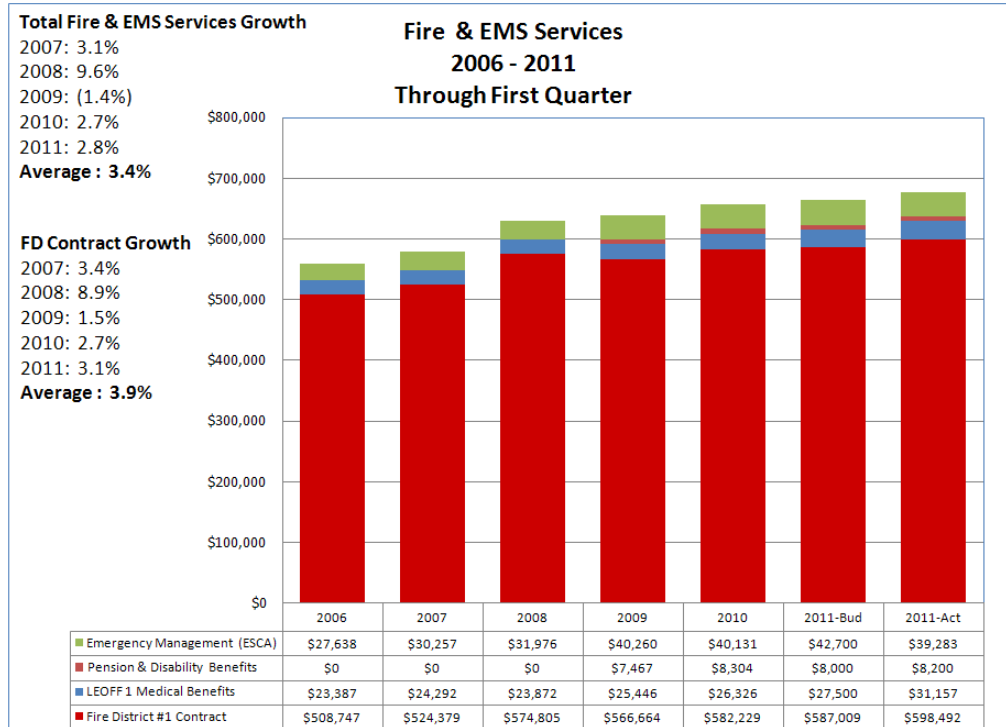
- Property tax revenues collections are estimated to come in on budget. Property taxes in 2011 have decreased \$11,482 as compared to 2010 reflecting the decrease in property values brought on by current economic conditions.



- Admission taxes total \$25,321 through first quarter 2011, which is \$4,071 or 19.2% above the budget estimate (\$21,250) 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 \$5,644 or 28.7% from collections through first quarter 2010 (\$19,677).
- Transport fees (\$101,466), which represent financial reimbursement from Medicaid, Medicare, and private insurance policies for the cost of providing medically necessary ambulance transportation is above budgetary estimates (\$75,000) by \$26,466 or 35.3%. Collections increased from first quarter 2010 by \$90,000 or 12.7%.
- Fines and forfeitures revenues collections (\$118,601), which are comprised primarily of traffic infractions and criminal citations, are above budgetary estimates (\$98,750) by \$19,851 or 20.1%. Compared to collections through first quarter 2010 (\$101,106), collections have increased \$17,495 or 17.3% reflecting a more proactive police presence in the community. This revenue source helps pay for municipal court and jail service costs.
- General Fund investment interest revenues total \$3,110, which is \$9,390 or 75.1% below the budget estimate (\$12,500). However, all other major funds (capital and utility) are just about meeting budgetary estimates for this revenue source. It is the policy of the City of Mountlake Terrace that funds will be invested in only those investments permitted by Federal and State law as it relates to public funds. The primary objectives for the City's investment activities are (listed in the order of priority): safety, liquidity and yield.

Fire and EMS Services

In January, 2005, the City of Mountlake Terrace entered into an interlocal agreement with Snohomish County Fire District No. 1 to provide Fire and Emergency Medical Services to our City. Fire District No. 1 is the largest provider of fire and emergency medical services in Snohomish County, serving more than 225,000 residents in unincorporated areas and the cities of Brier, Edmonds, Mountlake Terrace and the Town of Woodway.



Fire & EMS Services Source & Uses	2006	2007	2008	2009	2010	2011		Change (bud vs. act)	
						Budget	Actual	\$	%
Revenues									
Property Tax-EMS Levy	\$ 193,233	\$ 202,391	\$ 206,458	\$ 230,339	\$ 279,862	\$ 255,659	\$ 255,659	\$ 0	0.0%
Transport Fees	57,819	35,282	103,804	79,127	90,000	75,000	101,466	26,466	35.3%
Program Revenues	\$ 251,052	\$ 237,673	\$ 310,262	\$ 309,466	\$ 369,862	\$ 330,659	\$ 357,125	\$ 26,466	8.0%
Expenditures									
LEOFF 1 Medical Benefits	\$ 23,387	\$ 24,292	\$ 23,872	\$ 25,446	\$ 26,326	\$ 27,500	\$ 31,157	\$ 3,657	13.3%
Pension & Disability Bene	-	-	-	7,467	8,304	8,000	8,200	200	2.5%
Emergency Management (27,638	30,257	31,976	40,260	40,131	42,700	39,283	(3,417)	-8.0%
Fire District #1 Contract									
Fire Suppression	99,680	100,237	280,840	109,435	112,008	109,562	133,453	23,891	21.8%
Fire Prevention	18,597	18,353	52,937	19,527	17,721	33,449	18,253	(15,196)	-45.4%
Emergency Medical Serv	390,470	405,789	241,028	437,702	452,500	443,998	446,786	2,789	0.6%
Subtotal Fire District #1 C	508,747	524,379	574,805	566,664	582,229	587,009	598,492	11,483	2.0%
Program Costs	\$ 559,772	\$ 578,928	\$ 630,653	\$ 639,837	\$ 656,990	\$ 665,209	\$ 677,132	\$ 11,923	1.8%
General Fund Contribution	\$ (308,720)	\$ (341,255)	\$ (320,391)	\$ (330,371)	\$ (287,128)	\$ (334,550)	\$ (320,007)	\$ 14,543	-4.3%

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.

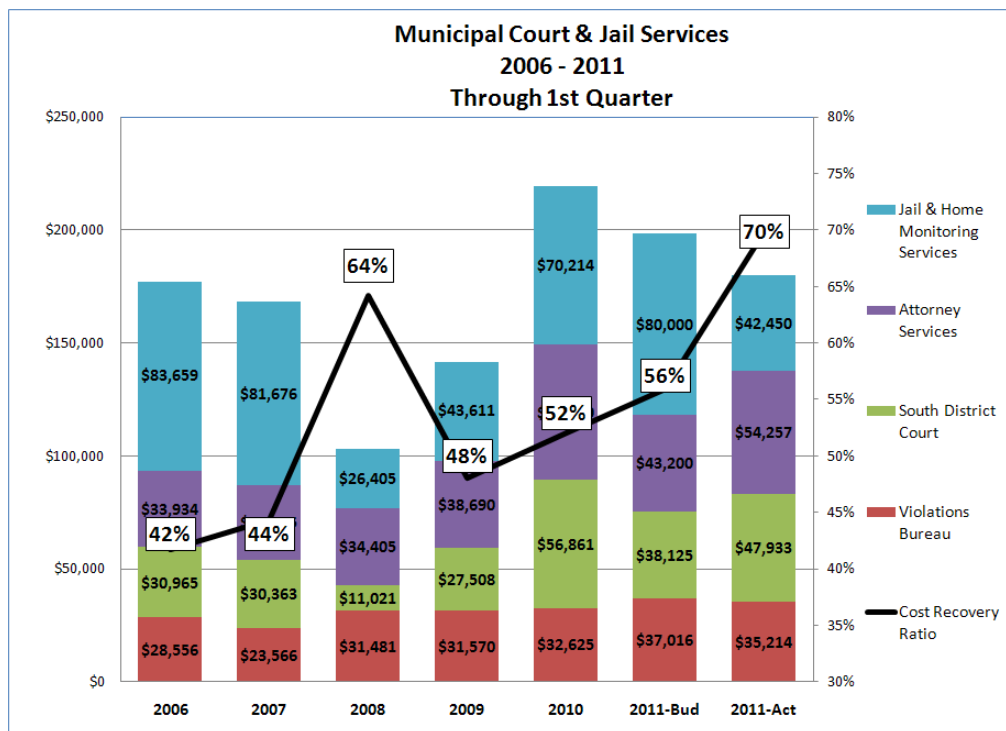
Special trained teams of firefighters also respond to hazardous materials incidents and technical rescue calls. Approximately 80% of the department calls for service are for medical aid.

	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.								

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 1st Quarter	2006	2007	2008	2009	2010	2011	Change (11 vs. 10)	
District Court Filings							#	%
Infraction Non-Traffic	0	0	1	0	0	1	1	n/a
Infraction Traffic	419	452	378	453	532	613	81	15.2%
Criminal Non-Traffic	85	92	89	105	121	61	(60)	-49.6%
Criminal Traffic	133	173	93	144	215	171	(44)	-20.5%
DUI	37	29	28	25	38	13	(25)	-65.8%
Parking	0	0	0	4	5	4	(1)	-20.0%
Total Cases	674	746	589	731	911	863	(48)	-5.3%

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

Municipal Court & Jail Services						2011		Change (bud vs. act)	
Source & Uses	2006	2007	2008	2009	2010	Budget	Actual	\$	%
<i>Revenues</i>									
<i>Fines & Forfeitures</i>									
District Court	\$ 50,712	\$ 55,441	\$ 40,809	\$ 41,916	\$ 82,809	\$ 75,000	\$ 92,535	\$ 17,535	23.4%
Tickets Paid at City	7,968	8,220	9,362	11,033	15,681	20,000	18,356	(1,644)	-8.2%
Civil Violations	1,930	2,280	2,961	3,447	2,616	3,750	7,710	3,960	105.6%
Sub-total	60,610	65,940	53,132	56,396	101,106	98,750	118,601	19,851	20.1%
Home Monitoring Fees	13,258	8,726	13,235	11,535	13,145	12,250	7,100	(5,150)	-42.0%
Total Revenues	\$ 73,867	\$ 74,666	\$ 66,367	\$ 67,931	\$ 114,251	\$ 111,000	\$ 125,701	\$ 14,701	13.2%
<i>Expenditures</i>									
Violations Bureau	\$ 28,556	\$ 23,566	\$ 31,481	\$ 31,570	\$ 32,625	\$ 37,016	\$ 35,214	\$ (1,802)	-4.9%
South District Court						38,000	44,860		
Infraction-Traffic	-	-	-	-	19,093	-	-	-	n/a
Infraction-Non-Traffic	-	-	-	-	-	-	-	-	n/a
Parking	-	-	-	-	180	-	-	-	n/a
Criminal-Traffic	-	-	-	-	26,416	-	-	-	n/a
Criminal-Non Traffic	-	-	-	-	12,688	-	-	-	n/a
Interpreter Services	-	-	-	-	5,184	3,500	3,073	(427)	-12.2%
Witness Fees	-	-	-	-	-	125	-	(125)	-100.0%
Fees from Defendants	-	-	-	-	(6,700)	(3,500)	-	3,500	n/a
Sub-total	30,965	30,363	11,021	27,508	56,861	38,125	47,933	9,808	25.7%
Attorney Services									
Prosecuting Attorney & Dom Viol Prosecutor	-	-	-	-	44,175	26,700	-	(26,700)	n/a
Public Defender	-	-	-	-	15,600	15,500	-	(15,500)	n/a
Conflict Public Defender	-	-	-	-	125	1,000	-	(1,000)	n/a
Sub-total	33,934	32,895	34,405	38,690	59,900	43,200	54,257	11,057	25.6%
Jail & Home Monitoring Services									
Chelan County Jail	-	-	-	-	-	-	-	-	n/a
Lynnwood Jail	-	-	-	-	4,227	5,400	8,293	2,893	53.6%
Transport Fees	-	-	-	-	-	-	-	-	n/a
Okanogan County Jail	-	-	-	-	-	-	-	-	n/a
Snohomish County Jail	-	-	-	-	63,258	69,600	32,556	(37,044)	-53.2%
Inmate Medical Costs	-	-	-	-	-	-	237	237	n/a
Home Monitoring Svcs	-	-	-	-	2,729	5,000	1,364	(3,636)	-72.7%
Subtotal	83,659	81,676	26,405	43,611	70,214	80,000	42,450	(37,550)	-46.9%
Total Expenditures	\$ 177,114	\$ 168,499	\$ 103,312	\$ 141,379	\$ 219,600	\$ 198,341	\$ 179,854	\$ (18,487)	-9.3%
General Fund Contribution	\$ (103,247)	\$ (93,833)	\$ (36,945)	\$ (73,448)	\$ (105,349)	\$ (87,341)	\$ (54,153)	\$ 33,188	-38.0%
Cost Recovery Ratio	42%	44%	64%	48%	52%	56%	70%	13.9%	24.9%

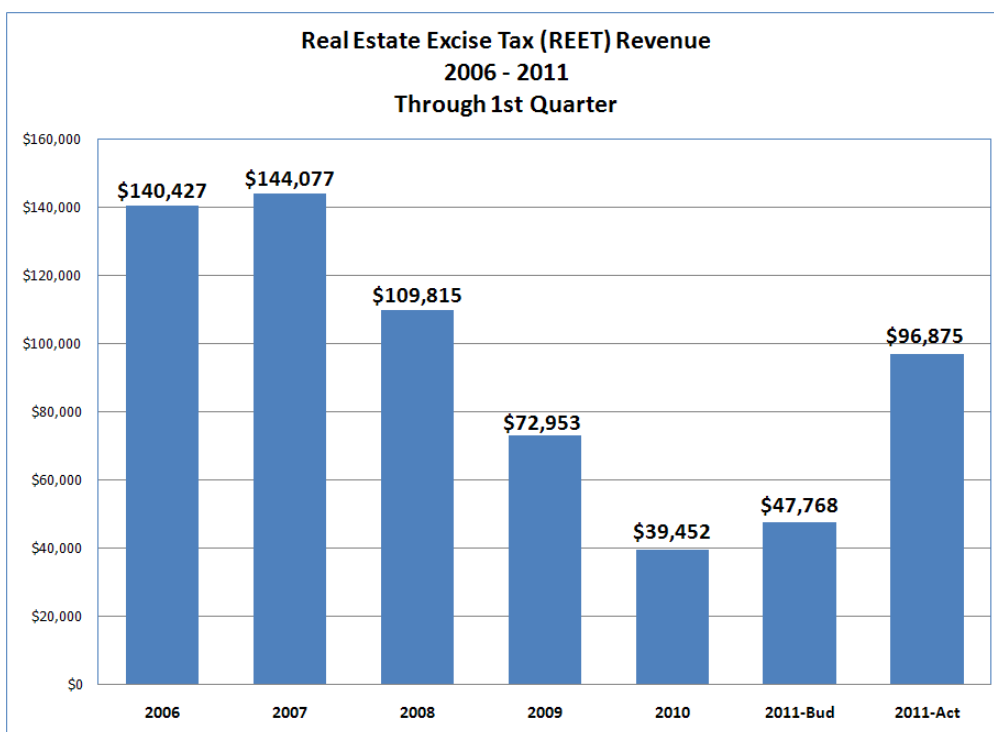
Capital Improvement Funds

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	1st 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	47,768	96,875	49,107	102.8%
Motor Vehicle Fuel Tax	150,104	156,166	149,373	143,861	143,282	142,005	35,501	31,566	(3,935)	-11.1%
Cable PEG Fees	16,796	16,988	16,916	21,485	17,095	17,000	4,250	4,149	(101)	-2.4%
Transportation Impact Fees	-	-	2,334	1,081	35,359	276,800	69,200	11,590	(57,610)	n/a
Park Impact Fees	-	-	4,224	2,026	56,563	180,000	45,000	46,347	1,347	n/a
Investment Interest/Other	165,996	282,880	257,504	150,613	91,722	149,600	37,400	15,850	(21,550)	-57.6%
Subtotal Operating Revenue	1,299,507	1,149,135	916,715	611,718	573,727	1,015,405	239,119	206,377	(32,742)	-13.7%
Other Financing Sources										
Transfer In: General Fund	741,756	2,126,000	356,000	500,000	655,000	715,000	91,250	91,250	-	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	6,250	6,250	-	0.0%
Transfer In: Accum Leave Reserve Fund	-	500,000	-	-	-	-	-	-	-	n/a
Transfer In: Facilities Construction Fund	11,722	299,708	-	-	-	-	-	-	-	n/a
BAN Financing	-	-	-	380,000	500,000	114,824	-	-	-	n/a
Grants	398,257	172,558	118,853	848,442	1,158,338	785,590	792	792	-	0.0%
Subtotal Other Financing Sources	1,726,142	4,873,855	702,853	2,289,307	2,323,338	1,640,414	98,292	98,292	-	0.0%
Total Capital Improvement Funds	\$ 6,600,819	\$10,620,305	\$ 8,361,147	\$ 8,524,161	\$ 7,554,482	\$ 6,401,476	\$ 4,083,068	\$ 4,050,326	\$ (32,742)	-0.8%
Capital Program										
Overlay Program	\$ 881,419	\$ 483,158	\$ 474,248	\$ 999,768	\$ 41,337	\$ 639,765	\$ 582	\$ 582	\$ -	0.0%
Chip & Shury Seal Program	211,091	155,610	236,245	191,901	305,832	355,300	-	-	-	n/a
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	107,331	107,331	-	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	-	-	-	n/a
Engineering Services	87,000	184,455	238,244	341,589	321,095	253,545	51,244	51,244	-	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	11,746	11,746	-	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	19,872	19,872	-	0.0%
Capital-Interim City Hall	-	-	-	399,982	545,794	464,824	111,968	111,968	-	0.0%
Capital-Parks	-	114,128	280,419	61,757	30,510	106,226	16,830	16,830	-	0.0%
Capital-Recreation	29,182	13,719	24,870	21,818	4,851	25,900	6,997	6,997	-	0.0%
Capital-Police	81,226	-	71,206	60,666	92,564	78,493	15,721	15,721	-	0.0%
Subtotal Other Financing Uses	1,651,168	1,960,887	2,367,760	2,944,265	3,597,989	3,760,962	342,291	342,291	-	0.0%
Transfer Out (Debt Service & CIP)	352,336	1,917,839	370,250	922,478	210,836	260,078	65,020	65,020	-	0.0%
Total Capital Improvement Funds	\$ 2,003,504	\$ 3,878,726	\$ 2,738,010	\$ 3,866,743	\$ 3,808,825	\$ 4,021,040	\$ 407,311	\$ 407,311	-	0.0%
Fund Balances										
Designated/Reserved:										
P.E.G. (Cable Fees)	\$ 32,309	\$ 37,476	\$ 47,886	\$ 63,926	\$ 81,021	\$ 98,021	\$ 85,271	\$ 85,170	(101)	-0.1%
Transportation Impact Fees	-	-	2,334	2,334	38,774	315,574	107,974	50,364	(57,610)	-53.4%
Park Impact Fees	56,213	56,213	10,110	6,250	62,813	242,813	107,813	109,160	1,347	1.2%
Capital Improvements	4,508,793	6,647,890	5,562,807	4,584,908	3,563,049	1,724,028	3,374,699	3,398,321	23,622	0.7%
Total Ending Fund Balances	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 4,657,418	\$ 3,745,657	\$ 2,380,436	\$ 3,675,757	\$ 3,643,015	\$ (32,742)	-0.9%

Real Estate Excise Taxes

The following graph and table illustrate collection history for the first and second 1/4 percent real estate excise taxes (REET). The table and graph both reflect the cyclical variation in this revenue source. During first quarter 2011, REET revenues (\$96,876) were above budgetary



estimates (\$47,768) by \$49,107 or 102.8%. Compared with 2010 activity (\$39,452), REET revenues have increased \$57,423 or 145.6%. However, collections still lag significantly when compared to collections in previous years, particularly 2006 through 2008, due primarily to the weak economy. This decline is reflective of the 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			
May	67,692	88,856	128,309	16,282	22,519	29,482			
June	213,025	112,523	43,814	21,106	15,572	28,145			
July	135,618	72,816	33,147	47,594	26,048	30,999			
August	63,927	56,712	28,679	29,321	22,654	20,795			
September	72,803	41,230	47,809	24,096	18,979	20,876			
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	\$ 96,875	\$ 49,107	102.8%

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

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 \$6.2 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

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

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 several 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, safe routes to schools, etc.).

Project-State Funds	Grant	Amount Requested
School Zone Safety – Terrace Park Elementary School	School Zone Flashing Beacon	\$7,400
Digitize Records	Local Records Grant Program	\$10,000
Emergency Operations Center (EOC)	EOC Grant Program	\$250,000
Gateway Connector	Transportation, Community & System Preservation	\$1,000,000
TOTAL		\$1,267,400

Project-Federal Funds	Status	Amount Requested
Emergency Services Equipment	Representative Inslee has requested \$300,000 and was included in House Appropriations Subcommittee as FY 2011 request – also a FY 2012 request	\$500,000
Downtown Main Street Revitalization Project – 56 th Ave W Corridor Improvements between 230 th St SW & 236 th St SW	FY 2012 request	\$1,500,000
Storm Water Detention & Water Quality Improvements in support of Downtown, Civic Campus & Lake Ballinger/McAleeer Creek Watershed Basin	FY 2012 request	\$235,000
Energy Efficiency Projects: 1. Police station HVAC improvements; 2. Library HVAC improvements; 3. Recreation pavilion HVAC improvements; 4. Citywide street lighting; and	FY 2012 request	\$400,000

5. Neighborhood park lighting.		
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	FY 2012 request	\$750,000
2. 54 th Ave W between 220 th and 223 rd connecting to Mountlake Terrace Elementary School		
Lakeview Trail	Included in Congressional Reauthorization of the Transportation Bill (FY 2010 request)	\$1,000,000
Lake Ballinger/McAleeer Creek Watershed Basin Partnership	Representative Inslee has requested \$1.4 million as part of the WRDA	\$1,400,000
TOTAL		\$5,785,000
GRAND TOTAL		\$7,052,400

Key Capital & Construction Investment Projects

The City continues to implement its \$83.8 million capital improvement plan for the years 2006 through 2016 that includes important improvements to our streets, parks, sidewalks, facilities, utilities and open space areas. The following are some of the City's key projects 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 this fall. 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 is anticipated to begin later this summer.
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 is anticipated to begin later this summer.
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.

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. City Council consideration of awarding the construction contract is scheduled for its meeting on June 20, 2011. Construction will begin mid-July with completion scheduled for November.

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 take place this summer. 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: Project plans and specifications are in final stages of preparation for the 2011 Chipseal Program. This year's project will focus on three streets that are either form or are adjacent to City boundaries; the project includes 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 project is being developed for Mountlake Terrace to take a lead agency status in developing and managing the project but for the Cities of Lake Forest Park and Lynnwood to participate for their proportionate share of the project area.
7. Park Improvements 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; and
 - d) Installation of a retaining wall and construction of stage area for community events at Evergreen Playfield.

8. Town Center

- a) Energy Conservation Tool Kit for Town Center Development -- this project, funded by the Washington State Department of Commerce under the American Recovery Reinvestment Act (\$135,000), was undertaken in partnership with the Urban Innovations Group (UIG) to develop a development review and inspection process, including an energy conservation “tool kit,” that will result in more energy-efficient development in the Town Center. Ultimately, the tool kit is intended to be adaptable to other key areas within the City or in other communities.

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

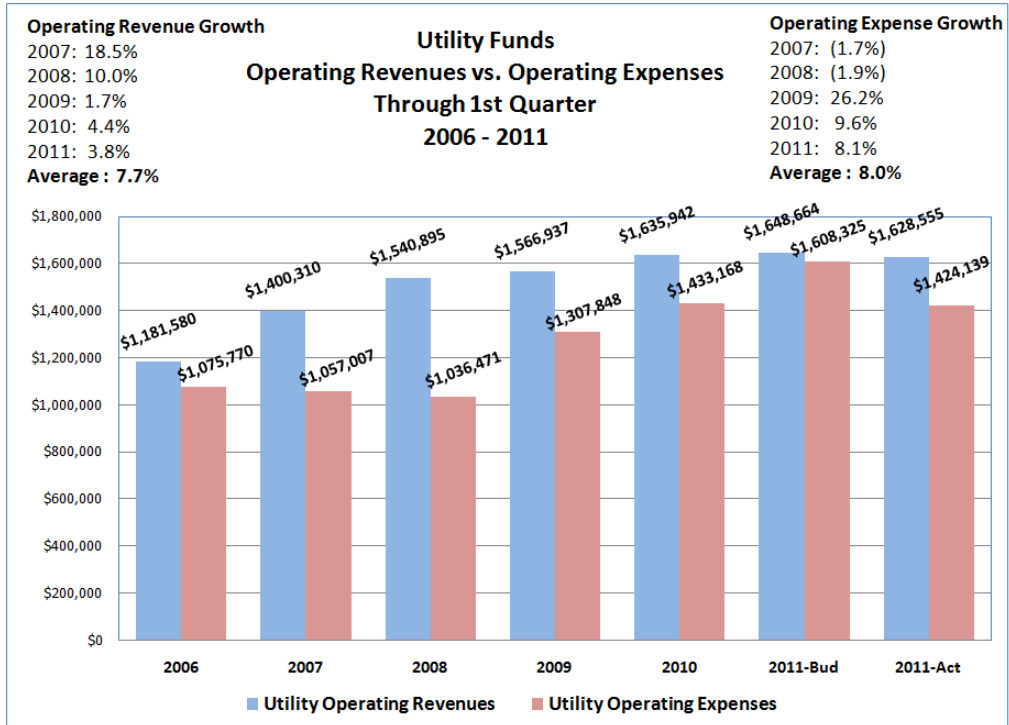
A presentation is scheduled for City Council’s April 14, 2011 work/study session to provide information about how the City could participate in a future Energy Efficiency District to include the review of a proposed Resolution memorializing its interest in participating in an Energy Efficiency District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

- b) Energy-Efficient Transportation Choices Project -- this project, funded by the Washington State Department of Commerce under the American Recovery Reinvestment Act (\$75,000), is to plan for Sound Transit light rail and transit-oriented development, including bicycle and pedestrian connections, especially in the vicinity of I-5 and 236th, in partnership with Sound Transit and Community Transit. On April 4, the City Council adopted an Electric Vehicle Strategy to plan for future electric vehicle needs—the first such strategy by a jurisdiction in Snohomish County. The Electric Vehicle Strategy, which was grant funded, envisions that market demand for electric vehicles will significantly increase in the future. Electric vehicles are quiet, efficient, and economical to fuel with clean energy. The biggest issue for their widespread use is the lack of infrastructure to support charging them. The Electric Vehicle Strategy identifies several strategies to support two key goals. The first goal is to encourage locating electric vehicle infrastructure so that it is convenient for users within Mountlake Terrace. The second is to include electric vehicles in the city’s fleet as suitable models and resources become available.
- c) Transfer of Development Rights (TDR) Program -- In 2010, the City of Mountlake Terrace was selected by the Washington State Department of Commerce for grant funding through the U.S. Environmental Protection Agency for a Transfer of Development Rights (TDR) grant program. The grant amount of \$100,000 was awarded to the City to create a TDR program that will demonstrate innovative ways to transfer development rights within a city that does not have rural or resource lands nearby. To be selected, the City of Mountlake Terrace prepared a competitive application and was one

of ten projects chosen in the region. On April 4, 2011, the City Council approved a professional services agreement with Jones & Stokes Associates, of ICF Consulting Group, for completion of an environmental impact statement (EIS) related to a possible Transfer of Development Rights (TDR) program. Completion of an EIS is an integral part of developing the TDR program. This EIS will supplement the original Town Center EIS completed in 2007. Even without a TDR program, the EIS will be useful in considering future development. 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 recently that would allow cities with an adopted TDR program to obtain a unique type of financing for City projects (e.g., 56th Ave W between 230th and 236th).

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 exceeding budgetary estimates by \$10,110 or 3.5% through first quarter 2011 while operating expenditures are under budgetary estimates by \$43,186 or 13.3% due primarily to higher than anticipated maintenance costs.

Extra emphasis will be placed on storm water quality issues beginning in 2011 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 \$58,498 or 8.7% through first quarter 2011 while operating expenditures are also below budgetary estimates by \$112,889 or 17.5% due primarily to lower than anticipated maintenance costs and water acquisition expenses.

Beginning in 2011, a system-wide water meter replacement is planned along with a conversion to an automatic meter reading (AMR) system. AMR will enable water meter to be read via a radio signal rather than by an individual employee, which in turns reduces errors and allows for real-time leak detection. The AMR project, along with other utility projects planned for the next two years, is being funded by water and sewer revenue bond (loan) that was issued last August at a very low interest rate of 3.48% over 20 years. This attractive rate was a result of the city's high "AA" bond rating from Standard and Poor's rating agency, which indicates the city is a quality borrower with very strong capacity to meet its financial commitments.

Sewer Utility

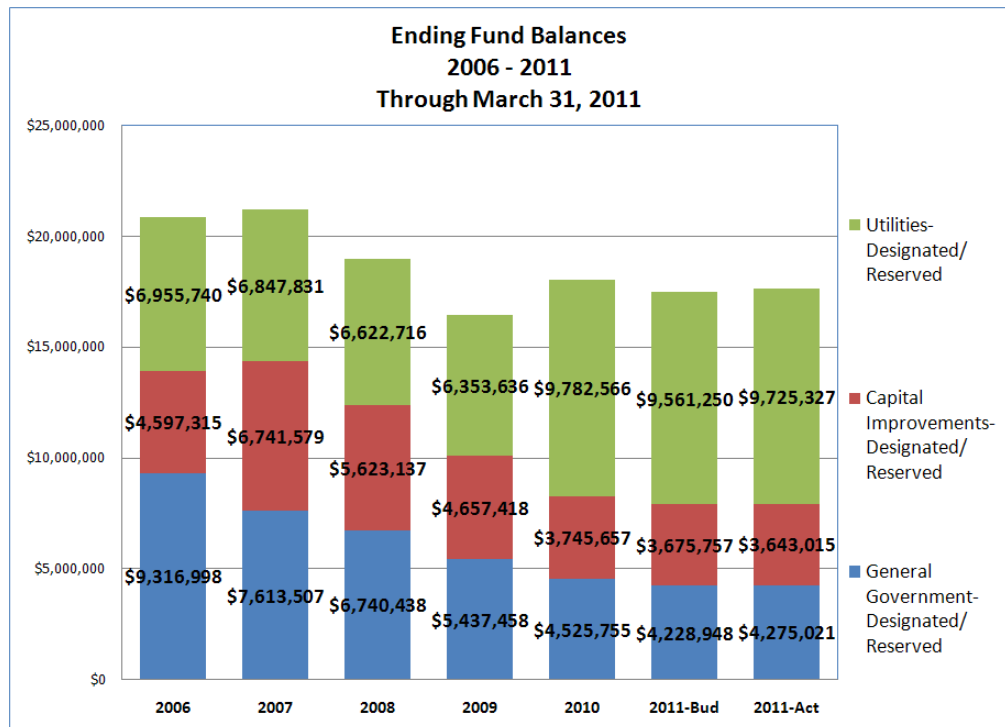
The city's Sewer Utility provides uninterrupted sewer service to residents and businesses. There are approximately 70 miles of sewer mains, 30 miles of laterals, four lift stations and 1,400 sewer maintenance access points in the city. Sewage is treated in Edmonds, where Mountlake Terrace is a part owner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

Sewer operating revenues are exceeding budgetary estimates by \$28,280 or 4.1% through first quarter 201, while operating expenditures are under budgetary estimates by \$28,111 or 4.4% due primarily to lower than anticipated maintenance costs.

Sources & Uses Utility Funds	2006	2007	2008	2009	2010	2011			Change (bud vs. act)	
						Budget	1st 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	287,089	297,199	10,110	3.5%
Water	2,651,866	2,529,983	2,755,605	2,799,047	2,804,444	3,187,468	669,368	610,870	(58,498)	-8.7%
Sewer	2,889,815	2,812,790	3,056,971	3,028,233	3,107,894	3,296,221	692,206	720,486	28,280	4.1%
Subtotal Operating Revenues	6,459,102	6,274,453	6,831,026	6,969,976	7,156,151	7,850,780	1,648,664	1,628,555	(20,109)	-1.2%
Operating Expenditures										
Storm Water	847,183	906,074	909,589	1,049,582	1,172,707	1,473,420	324,152	280,966	(43,186)	-13.3%
Water	2,432,808	2,414,703	2,362,810	2,567,598	2,463,298	2,923,969	643,273	530,384	(112,889)	-17.5%
Sewer	2,317,565	2,445,042	2,606,838	2,597,915	2,607,824	2,913,180	640,900	612,789	(28,111)	-4.4%
Subtotal Operating Expenditures	5,597,556	5,765,819	5,879,237	6,215,095	6,243,829	7,310,569	1,608,325	1,424,139	(184,186)	-11.5%
Operating Surplus (Deficit)	861,546	508,634	951,789	754,881	912,322	540,211	40,339	204,416	164,077	406.8%
Other Financing Sources										
Grants and PWTFL	-	291,200	162,622	476,152	145,504	-	-	-	-	n/a
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	-	-	-	-	n/a
Other Financing Uses										
Construction Projects	1,300,197	904,846	1,516,706	1,620,973	4,031,348	7,822,988	261,655	261,655	-	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	261,655	261,655	-	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)	2,246,370	2,299,666	53,296	2.4%
Water	2,951,524	3,260,139	2,576,703	2,350,158	4,003,509	308,709	3,928,924	3,983,315	54,391	1.4%
Sewer	2,148,133	2,073,392	2,033,658	1,986,654	1,978,516	859,024	1,918,705	1,975,095	56,390	2.9%
Debt Service	151,457	-	-	-	458,425	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	\$ 9,561,250	\$ 9,725,327	\$ 164,077	1.7%

Ending Fund Balances/Reserves

The following graph and table illustrates the City's ending fund balances between 2006 and March 31, 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 first quarter 2011.

Reserved/Designated Ending Fund Balances: The first component of ending fund balances, totaling \$4,275,021 at the end of first quarter 2011, are those moneys that have been earmarked for a strategic reserve fund (\$724,144), equipment replacement reserves (\$975,667), accumulated leave reserves (\$247,964), and General Fund reserves totaling 5% of operating expenditures (\$727,526). This reserve designation also include encumbrances from prior and current year (\$563,300), funds dedicated solely for tourism purposes (\$23,313), and solid waste billing exemptions (\$10,298).

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 (\$8,258,076) and debt service (\$458,425). All Capital (\$3,643,321) and Utility Construction Fund balances (\$8,258,076) 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 (\$711,798) in the General Fund through the end of first quarter 2011 are over the budget estimate (\$655,256) by \$56,542 or 8.6% -- 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.

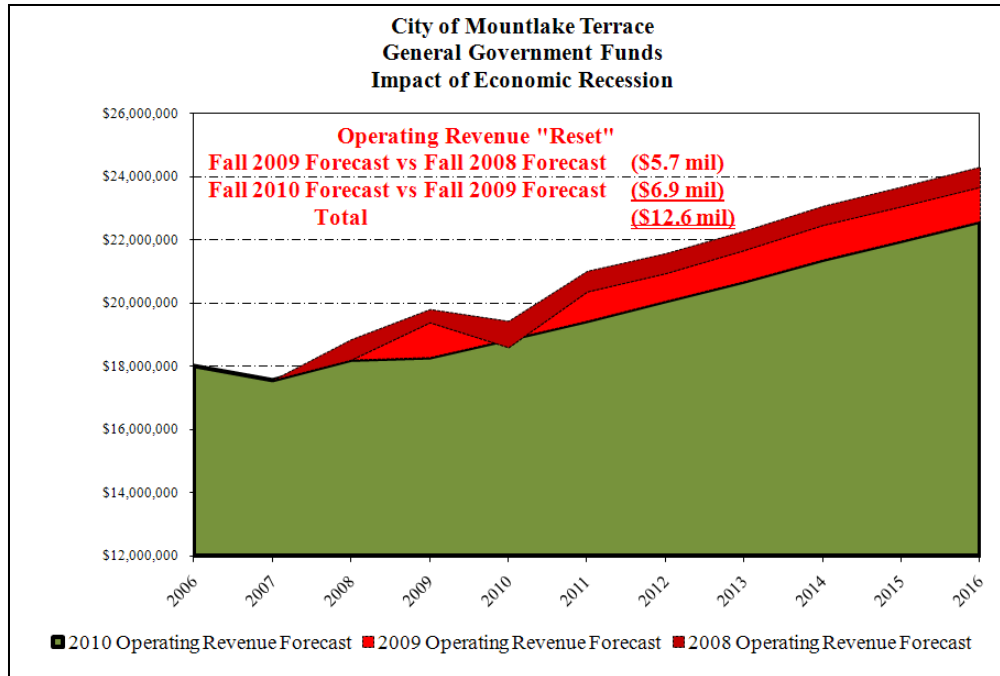
Ending Fund Balances All Funds	2006	2007	2008	2009	2010	2011		Change (bud vs. act)	
						Bud	Actual	\$	%
<i>General Government</i>									
Reserved/Designated									
Reserves (5% of GF Oper Exp)	\$ 694,768	\$ 672,383	\$ 729,525	\$ 682,127	\$ 697,653	\$ 727,526	\$ 727,526	\$ -	0.0%
Strategic Reserve (5% of GF Oper Exp)	916,507	959,753	995,309	720,800	727,160	728,660	724,144	(4,516)	-0.6%
Reserved/Designated									
Encumbrances	402,437	179,672	185,553	532,789	503,208	516,292	563,300	47,008	9.1%
Equipment Replacement & Reserve	2,294,889	2,307,593	2,345,407	1,584,367	1,008,393	1,029,200	975,667	(53,533)	-5.2%
Hotel/Motel-Tourism	35,922	32,907	34,979	30,178	19,360	23,610	23,313	(297)	-1.3%
Solid Waste-Billing Exemptions	58,359	61,628	40,531	27,686	9,786	7,411	10,298	2,887	39.0%
Accumulated Leave Reserve	761,751	283,723	234,381	241,340	246,857	249,982	247,964	(2,018)	-0.8%
Subtotal Reserved/Designated	5,164,633	4,497,659	4,565,685	3,819,287	3,212,417	3,282,681	3,272,212	(10,469)	-0.3%
Contingency (2% of GF Oper Exp)	-	-	-	-	293,217	291,011	291,011	-	0.0%
Designated/Reserved (one-time)	4,152,365	3,115,848	2,174,753	1,618,171	1,020,121	655,256	711,798	56,542	8.6%
Total General Government	\$ 9,316,998	\$ 7,613,507	\$ 6,740,438	\$ 5,437,458	\$ 4,525,755	\$ 4,228,948	\$ 4,275,021	\$ 46,073	1.1%
	-	-	-	-	-	-	-		
<i>Capital Improvement</i>									
Reserved/Designated									
P.E.G. (Cable Fees)	32,309	37,476	47,886	63,926	81,021	85,271	85,170	(101)	-0.1%
Transportation Impact Fees	-	-	2,334	2,334	38,774	107,974	50,364	(57,610)	-53.4%
Park Impact Fees	56,213	56,213	10,110	6,250	62,813	107,813	109,160	1,347	1.2%
Capital Improvements	4,508,793	6,647,890	5,562,807	4,584,908	3,563,049	3,374,699	3,398,321	23,622	0.7%
Total Capital Improvement	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 4,657,418	\$ 3,745,657	\$ 3,675,757	\$ 3,643,015	\$ (32,742)	-0.9%
	-	-	-	-	-	-	-		
<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	2,246,370	2,299,666	53,296	2.4%
Water	2,951,524	3,260,139	2,576,703	2,350,158	4,003,509	3,928,924	3,983,315	54,391	1.4%
Sewer	2,148,133	2,073,392	2,033,658	1,986,654	1,978,516	1,918,705	1,975,095	56,390	2.9%
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	\$ 9,561,250	\$ 9,725,327	\$ 164,077	1.7%
	-	-	-	-	-	-	-		
Total Ending Fund Balances	\$20,870,053	\$21,202,917	\$18,986,291	\$16,448,512	\$18,053,978	\$17,465,955	\$17,643,363	\$ 177,408	1.0%

Action Strategies and Preventative Measures Implemented

Despite the budget's conservative assumptions for revenue growth in recent years, the current economic crisis has caused us to make our new forecast, which was updated first in October 2009 and then again in October 2010 even more conservative.

The current financial forecast

as compared to the 2008 forecast shows a loss in general government revenue totaling \$12.6 million, meaning we have significantly tightened our budget to ensure we live within our means.



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

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 and the biennial budget process in 2010, revenue estimates through 2016 have been adjusted downward to reflect current economic conditions.
- All discretionary spending has been eliminated, incurring costs related to basic services only (e.g., employee compensation; mandated training & certifications; basic services such as park maintenance, public safety, code enforcement, code compliance, ROW maintenance, & street sweeping; and community outreach and information such as newsletter, website, news releases).

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

The result is that all employees moved to AWC's "HealthFirst" insurance plan on January 1, 2011 in an effort to save money. Over 160 City employees are eligible for health insurance provided through the Association of Washington Cities (AWC).

- Because of the continued deterioration of the economy and the projected ongoing loss of a key General Fund operating revenue source, an additional step includes the elimination of two regular, full-time Customer Service Specialist positions effective October 1, 2009. The duties of these positions have been assigned to employees in the Administrative Services Department who, according to an independent review last year, have capacity to pick up the additional tasks.
- The Administrative Services Department has been providing financial services to Southwest Snohomish County Communications Agency (SNOCOM). This contract for services, which began on November 1, 2009 and will continue through at least December 31, 2011, will generate General Fund income equal to approximately one-half of the salary and benefits for a finance position during the term of the agreement. The Administrative Services Department is capable of assuming these tasks based upon the independent review conducted earlier this year that showed the department has the capacity to pick up the additional tasks.
- Lastly, the City previously streamlined the following services that has resulted in annual budgetary savings totaling \$1,550,000 dating back to 2005:
 - Contract for fire & EMS services (\$600,000 per year beginning in 2005)
 - Custodial services transitioned from in-house to contract (\$250,000 per year beginning in 2007)
 - Elimination of five management positions (\$400,000 per year beginning in 2006)
 - Fleet management best practices (\$300,000 per year beginning in 2009)

The service efficiencies and savings identified coupled with our current strategies and preventative measures have helped ensure that key municipal services (e.g., police, fire, parks, recreation, streets, and utilities) will not have to be reduced.

Other Options

In addition to the strategies and preventative measures implemented above, we also reviewed and considered the following options, but set them aside for the time being:

Use of financial reserves or contingency accounts to temporarily maintain services:

Although the City has funds set aside for unanticipated events, my recommendation is to hold off on using these financial reserves. The current economic climate has created a structural problem in our General Fund, meaning the use of reserves now does not address the ongoing and permanent loss of tax revenues.

A continued focus of program prioritization (e.g., economic development, capital infrastructure investment, communication and outreach with the community, and key essential public services such as public safety, parks, development services, recreation, streets, and utilities) and cost efficiencies (e.g., action strategies and preventative approaches as outlined above) is the most prudent way to ensure the city's financial health and continue to ensure that no services to our residents will need to be reduced. This approach has proven successful thus far – it is better to be proactive versus reactive, otherwise we prolong the inevitable.

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

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

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

Temporary Reductions in Development Services:

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

Economic Development:

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

Conclusion

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

Attachments

- Attachment A -- First Quarter 2011 Financial Report Detail
- Attachment B -- First Quarter 2011 Performance Measures