

MEMORANDUM

TO: City Council

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

DATE: December 7, 2009

SUBJECT: **Quarterly Financial Report
Third Quarter - January through September 2009**

Overview

This report is intended to provide an overview of financial activity that has taken place from January 1, 2009 through September 30, 2009. 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 September 2009. This report includes all of the City's 19 funds, as well as the beginning and ending fund balances of each fund and historical detail back to 2006. The report also reflects the 2009 budget amendments that were considered and adopted by the Council on June 15, 2009. Attachment B details the revenue and expenditure activity associated with the City's municipal court and jail services activity for the years 2003 through 2009.

Executive Summary

There is no doubt that these are unprecedented times for our economy, both locally and nationally. Economic activity continues to weaken across the country, the result of a recession that began in late 2007 and is expected to last at least through 2009, perhaps longer.

The result of the current recession has been massive layoffs, growing level of unemployment, slumping home prices, a slowdown in consumer spending, a continued deterioration of consumer confidence, and tight credit markets. Cities and counties throughout the country are feeling the impact of the situation. Mountlake Terrace is no exception.

Locally, the economic recession continues to negatively impact City revenues, particularly General Fund revenues, which funds key municipal services such as police, jail, court, fire, EMS, streets, parks, and community and economic development. Even though we have been holding our own since economic conditions took a turn for the worse in late 2007, revenue collections this past quarter slowed significantly reflecting the impact the recession is having on our finances.

The good news is that despite the current economic volatility and recession, we are meeting our operational objectives and most of our financial objectives through third quarter 2009. This reflects sound financial and management policies practiced by the City as well as the financial

prudence being practiced by our department directors and their staff. This will allow the City to ensure that basic municipal services that are provided to our citizens are not reduced and ensures the City's financial integrity and stability.

The not so good news is that even with some reports that the national economy may have bottomed out and appears to be slowly recovering; the difficulty for cities such as ours may just be beginning as is evident by our 3rd quarter revenue collections. Local government finances tend to lag behind changing economic conditions by 18 months to several years. For this reason, the worse effects of the recession upon local governments may be 2010, 2011 and 2012.

In addition, the State of Washington has experienced over the last 18 months the largest decrease in revenue in recent memory. The result is an additional shortfall totaling \$2.6 billion in its current biennium.

We understand the State is evaluating and considering all options to balance their new budget deficit, which may include revoking previously awarded capital grants to cities (e.g., GMA funds, Shoreline Management Grant, TIB grant) and possibly revoking or reducing cities state-shared revenues (e.g., criminal justice sales tax, liquor excise tax, liquor profits tax, other criminal justice funding). State-shared revenues, which totals approximately \$750,000 annually or over 5% of the city's general fund, is provided to cities and counties primarily for public safety purposes.

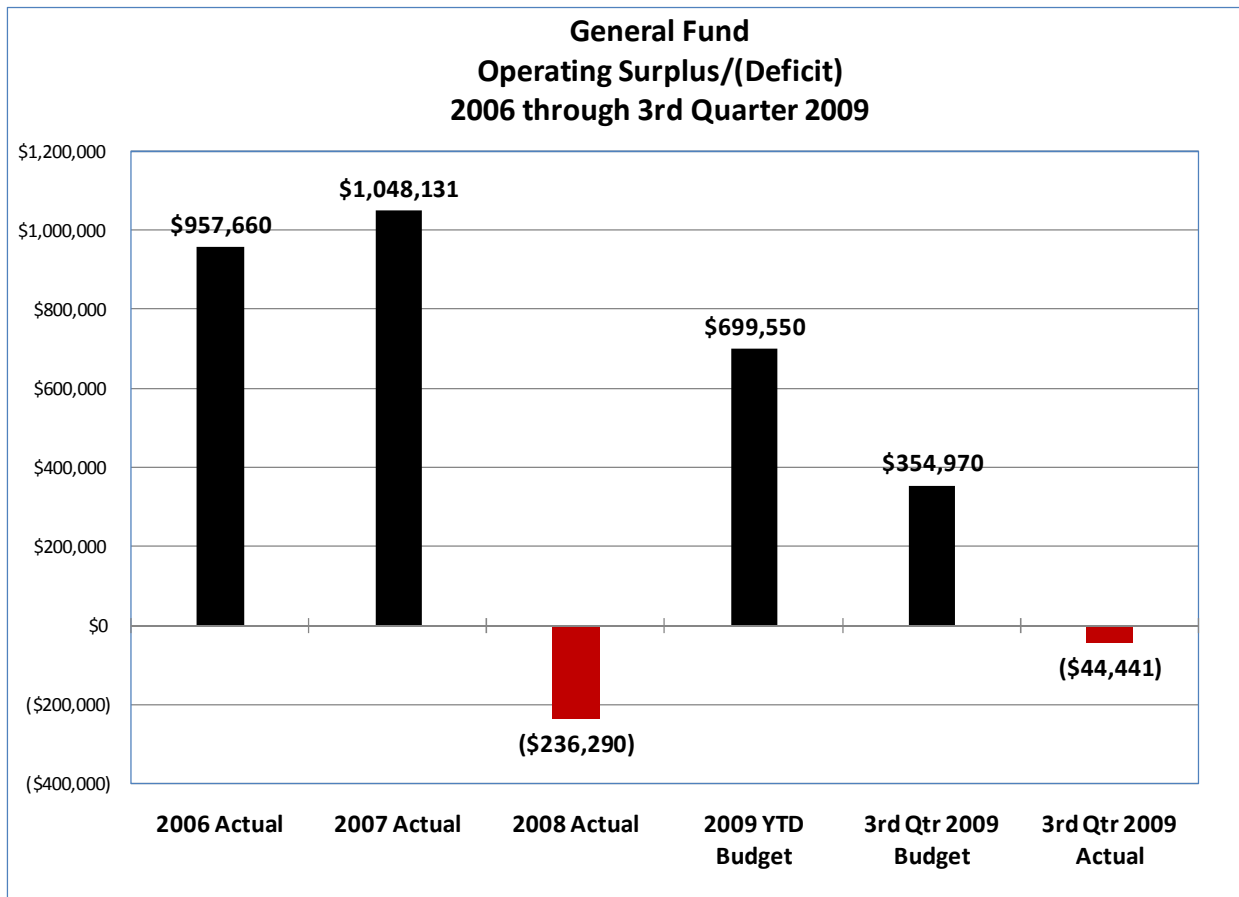
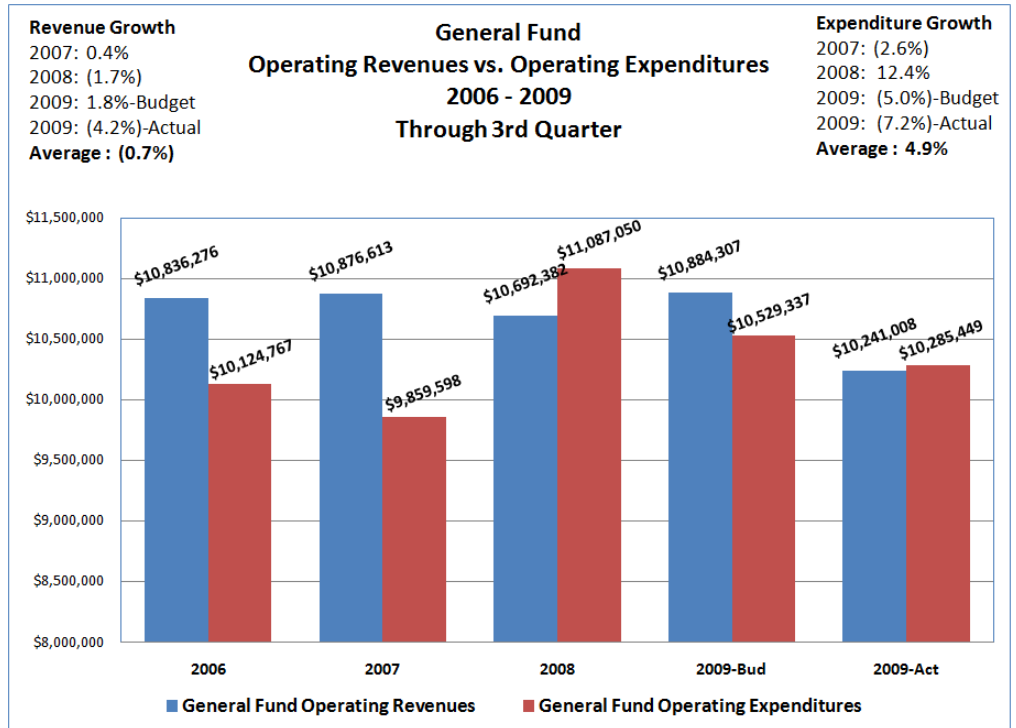
We would be forced to eliminate this amount from our general fund operating budget sometime early 2010, depending upon the implementation date determined by the State. We expect to know more about the State's intentions in early to mid-December when the Governor presents her supplemental budget, which will include a proposed balancing strategy to the State Legislature. The State Legislature will begin their work when they convene for their short-session in early January 2010. The session is scheduled to adjourn on March 11, 2010.

For now, we will continue with the steps we implemented last year to mitigate the impact of the recession to ensure we meet our financial objectives in 2009 just as we did in 2008. These steps will continue indefinitely. At this time, no services to our residents will need to be reduced.

General Government Funds

General Government Funds, which accounts for municipal services such as police, jail, court, fire, EMS, streets, parks, recreation, land use and zoning, planning, development services, debt service, and general administration such as finance, information services and community outreach and information consists of the following funds: General; Street Operations; Recreation; Debt Service; Strategic

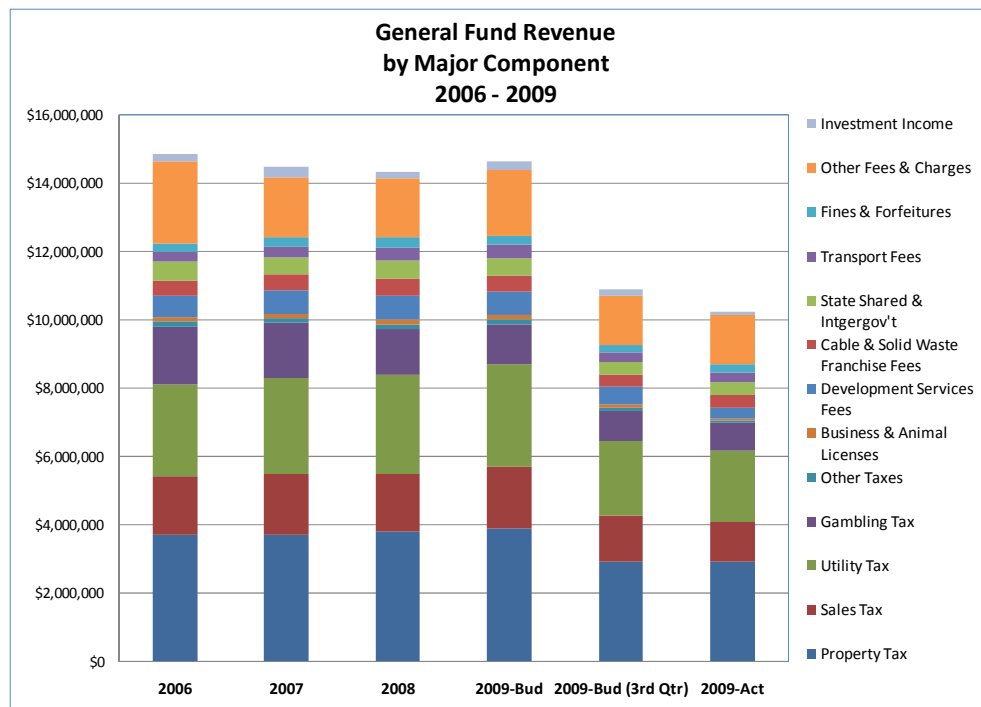
Reserve; Fleet Management; Hotel/Motel Tax; Solid Waste Service; and Accumulated Leave Reserve.



Resources by Fund				2009			Change (bud vs. act)	
	2006	2007	2008	Control Budget			\$	%
				Annual	3rd Qtr	Actual		
General Government	2006	2007	2008	2009 Annual	2009 3rd Qtr	2009 Actual		
Beginning Fund Balances	\$ 9,464,261	\$ 9,329,323	\$ 7,613,507	\$ 6,740,438	\$ 6,740,438	\$ 6,740,438	\$ -	0.0%
General								
Property Tax	3,722,059	3,722,182	3,787,483	3,887,641	2,915,731	2,915,731	0	0.0%
Sales Tax	1,704,801	1,756,581	1,712,184	1,825,705	1,345,951	1,175,519	(170,432)	-12.7%
Utility Tax	2,700,443	2,823,206	2,897,238	3,005,386	2,193,932	2,097,789	(96,143)	-4.4%
Gambling Tax	1,681,265	1,609,601	1,338,964	1,156,587	867,440	802,609	(64,831)	-7.5%
Other Taxes	141,588	138,687	138,814	138,657	103,993	51,429	(52,564)	-50.5%
Business & Animal Licenses	127,184	139,758	151,698	143,338	107,504	70,992	(36,512)	-34.0%
Development Services Fees	638,875	661,820	692,908	688,857	516,643	315,293	(201,350)	-39.0%
Cable & Solid Waste Franchise Fees	431,546	466,090	488,962	451,672	338,754	382,127	43,373	12.8%
State Shared & Intergov't	569,274	521,996	532,413	499,764	374,823	364,332	(10,491)	-2.8%
Transport Fees	270,067	311,483	377,845	400,000	300,000	289,100	(10,900)	-3.6%
Fines & Forfeitures	242,439	263,760	295,775	260,100	195,075	237,799	42,724	21.9%
Other Fees & Charges	2,411,950	1,769,874	1,734,268	1,941,950	1,456,463	1,432,532	(23,931)	-1.6%
Investment Income	211,529	307,416	190,364	240,000	168,000	105,756	(62,244)	-37.1%
Total General Fund Operating Revenues	14,853,020	14,492,454	14,338,916	14,639,657	10,884,307	10,241,008	(643,299)	-5.9%
Street Operating	367,879	379,475	358,187	368,242	276,182	259,560	(16,622)	-6.0%
Recreation	2,583,003	2,502,136	2,696,972	2,894,100	2,170,575	2,007,165	(163,410)	-7.5%
Debt Service	201,204	192,197	168,371	3,000	2,250	7,529	5,279	234.6%
Total General Govt Operating Revenues	18,005,106	17,566,262	17,562,446	17,904,999	13,333,314	12,515,262	(818,052)	-6.1%
Other Financing Sources								
Strategic Reserve	35,297	43,246	35,556	40,000	22,060	22,060	-	0.0%
Fleet Management	769,249	775,957	825,413	749,593	562,195	465,538	(96,657)	-17.2%
Hotel/Motel Tax	26,775	21,985	27,072	22,207	16,993	16,993	-	0.0%
Solid Waste Service	17,500	17,500	-	17,500	13,125	13,125	-	0.0%
Accumulated Leave Reserve	29,337	21,972	10,226	11,600	8,700	5,844	(2,856)	-32.8%
General	438,680	209,110	98,938	20,000	9,555	9,555	-	0.0%
Street Operating	542,851	247,918	476,132	502,542	376,907	313,756	(63,151)	-16.8%
Recreation	604,854	696,617	682,363	554,642	415,982	498,084	82,103	19.7%
Debt Service	628,825	623,700	637,407	846,613	634,960	634,960	0	0.0%
Fleet Management	3,911	-	35,948	148,500	35,819	35,819	-	0.0%
Total Other Financing Sources	3,097,279	2,658,005	2,829,055	2,913,197	2,096,295	2,015,734	(80,561)	-3.8%
Total All General Government Funds	\$30,566,646	\$29,553,590	\$28,005,008	\$27,558,634	\$22,170,046	\$21,271,434	\$ (898,612)	-4.1%

Revenues

Overall, General Fund operating revenues (\$10,241,008) collected through third quarter 2009 is below the control budget estimate (\$10,884,307) by \$643,299 or 5.9%. Compared with 2008 collections (\$10,692,382), operating revenues have decreased \$451,374 or 4.2%, which further illustrates the impact of the faltering economy.



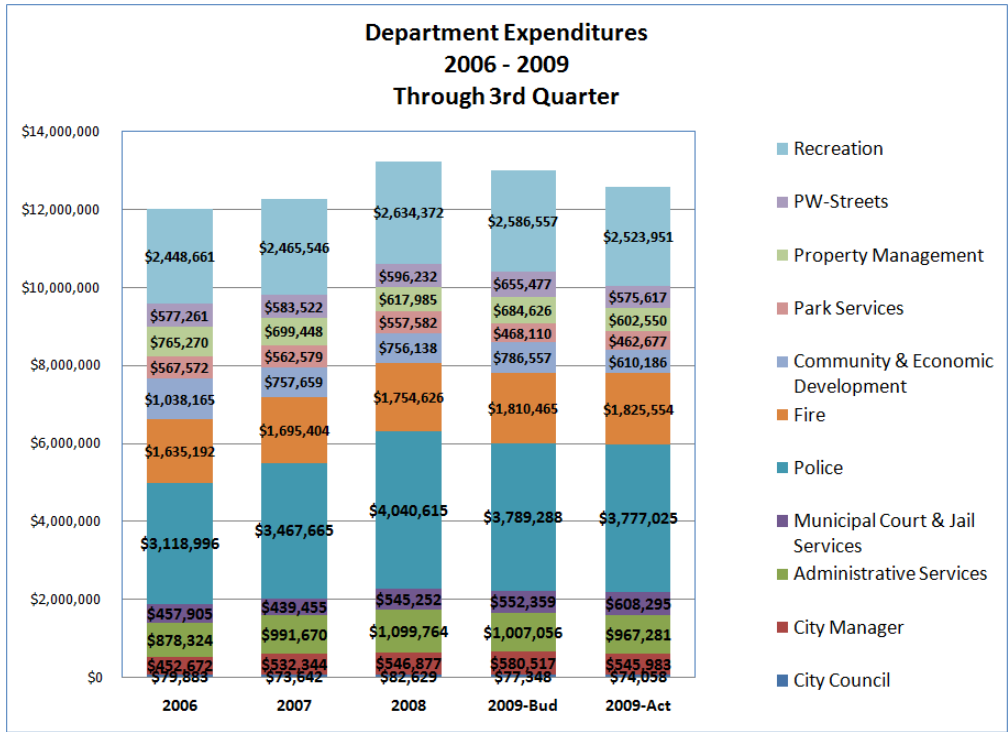
Total general government sources (\$21,271,434) are below the control budget estimate (\$22,170,046) by \$898,612 or 4.1%. One bit of silver lining is that the below collection estimate in Fleet Management is reflective of lower than anticipated gas prices meaning operating department payments to this program have also been reduced. Similarly, the lower than anticipated collections to the Street Operating Fund under other financial sources is reflective of the cost savings being generated by the public works department, the result which is a lower than projected General Fund transfer savings to that fund.

Expenditures

General Fund operating expenditures (\$10,285,449) through third quarter 2009 are below the control budget estimate (\$10,529,337) by \$243,888 or 2.3%, which offsets some of the lower than anticipated general fund revenue collections. Likewise, total general government expenditures (\$15,778,875) are below the control budget estimate (\$16,226,535) by \$447,660 or 2.8%, which also offsets the lower than anticipated general government revenue collections. These savings, which are above and beyond the preventative measures (e.g., elimination of all discretionary spending such as supplies, travel, training, overtime, equipment, temporary help, non-essential positions) are attributable to the financial prudence being practiced by our department directors and their staff.

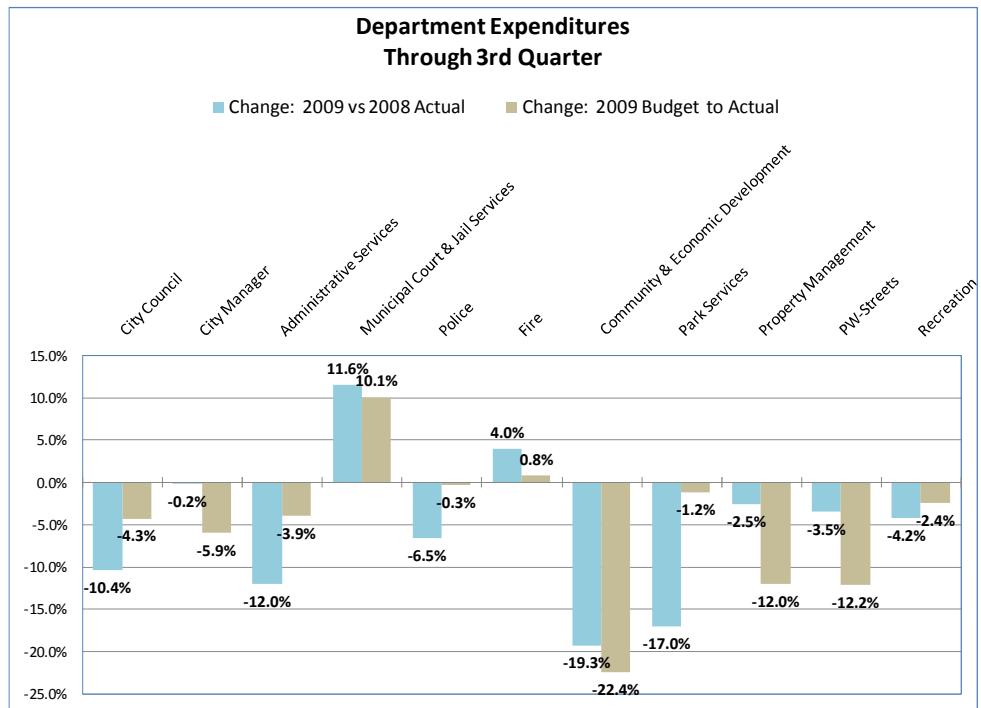
Expenditures by Fund				2009			Change (bud vs. act)		
	General Government	2006	2007	2008	Control Budget			\$	%
					Annual	3rd Qtr	Actual		
General									
City Council	incl with CM	\$ 96,659	\$ 104,753	\$ 103,130	\$ 77,348	\$ 74,058	\$ (3,290)	-4.3%	
City Manager	707,667	671,925	719,173	714,022	580,517	545,983	(34,534)	-5.9%	
Administrative Services	1,269,046	1,374,134	1,460,074	1,342,741	1,007,056	967,281	(39,775)	-3.9%	
Municipal Court & Jail Services	708,455	673,956	710,570	736,478	552,359	608,295	55,937	10.1%	
Police	4,285,179	4,527,696	5,171,253	5,052,384	3,789,288	3,777,025	(12,263)	-0.3%	
Fire	2,156,172	2,224,941	2,289,888	2,413,953	1,810,465	1,825,554	15,089	0.8%	
Community & Economic Development	1,437,758	1,034,661	1,038,427	1,048,743	786,557	610,186	(176,371)	-22.4%	
Park Services	772,235	688,783	752,220	585,138	468,110	462,677	(5,433)	-1.2%	
Property Management	1,074,654	910,583	860,196	912,834	684,626	602,550	(82,076)	-12.0%	
Oper Transfer Out-Debt Svc	336,489	296,450	310,157	-	-	-	-	n/a	
Oper Transfer Out-Streets	542,851	247,918	476,132	476,042	357,032	313,756	(43,276)	-12.1%	
Oper Transfer Out-Recreation	419,854	511,617	497,363	369,642	277,232	359,334	82,103	29.6%	
Oper Transfer Out- Rec Debt Svc	185,000	185,000	185,000	185,000	138,750	138,750	-	0.0%	
Total General Fund	13,895,360	13,444,323	14,575,206	13,940,107	10,529,337	10,285,449	(243,888)	-2.3%	
Operating Surplus/(Deficit)	957,660	1,048,131	(236,290)	699,550	354,970	(44,441)	(399,411)	-112.5%	
Street Operating	905,215	808,987	825,968	873,969	655,477	575,617	(79,860)	-12.2%	
Recreation	3,208,442	3,202,052	3,333,259	3,448,742	2,586,557	2,523,951	(62,606)	-2.4%	
Debt Service	823,478	822,448	805,778	479,613	121,942	121,942	-	0.0%	
Total General Government Funds	18,832,495	18,277,810	19,540,211	18,742,431	13,893,312	13,506,959	(386,353)	-2.8%	
Other Financing Uses									
Fleet Management	628,542	763,253	823,547	1,802,169	1,404,166	1,342,859	(61,307)	-4.4%	
Hotel/Motel Tax	19,302	25,000	25,000	29,833	26,105	26,105	-	n/a	
Solid Waste Service	25,199	14,231	21,097	26,426	22,997	22,997	-	0.0%	
Accumulated Leave Reserve	-	500,000	59,568	-	-	-	-	n/a	
General	1,324,703	2,359,789	795,147	796,074	654,955	654,955	-	0.0%	
Strategic Reserve	419,407	-	-	300,000	225,000	225,000	-	0.0%	
Other Financing Uses	2,417,153	3,662,273	1,724,359	2,954,502	2,333,223	2,271,916	(61,307)	-2.6%	
Total All General Government Funds	\$21,249,648	\$21,940,083	\$21,264,570	\$21,696,933	\$16,226,535	\$15,778,875	\$ (447,660)	-2.8%	

All city departments stayed within their allocated 2009 control budgets, with the exception of fire and municipal court due primarily to increased LEOFF 1 costs and increased court activity. Operating transfers to the Street Operating Fund are below budget, reflecting again the financial prudence being practiced by department directors and their staff.



Compared with 2008 general fund expenditure activity (\$11,087,050), operating expenditures have decreased \$801,601 or 7.2%, which again is attributable to the financial prudence being practiced by our department directors and their staff.

The result is that while our 2009 revenue collections continue to slow compared to budget and 2008 collections, 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

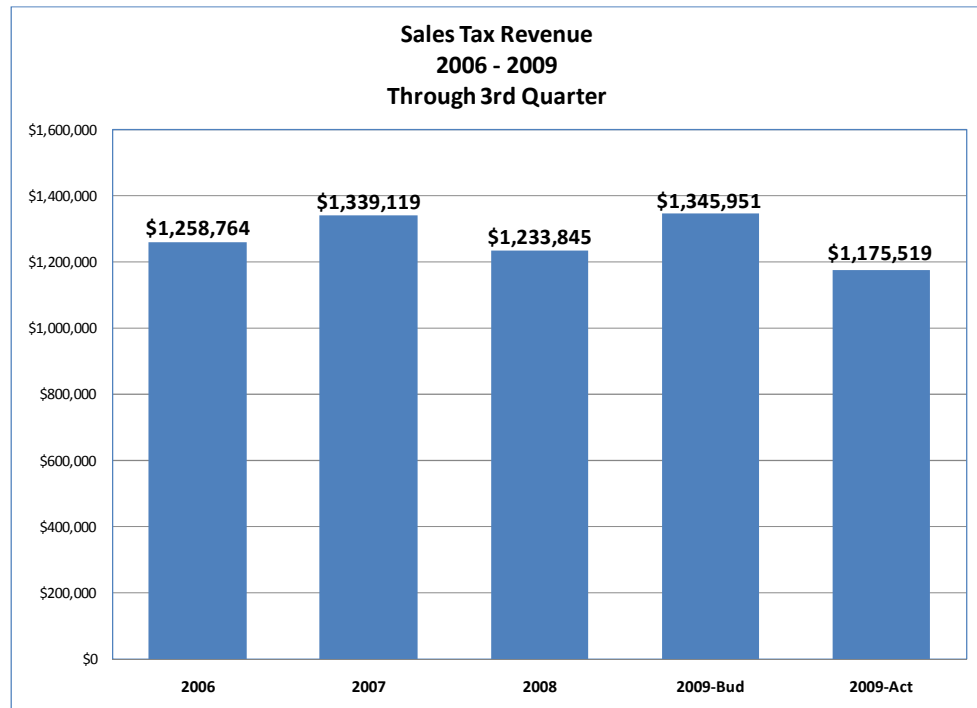


financial objectives to ensure the financial integrity and stability of the City; and 4) we ensure that basic municipal services that are provided to our citizens are not reduced.

Local Retail Sales Tax

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

Actual sales tax proceeds through September 2009 total \$1,175,519, which is \$170,432



or 12.7% below the September budget estimate (\$1,345,951). Compared to third quarter 2008 (\$1,233,845), sales tax revenues have decreased \$58,326 or 4.7%. Our sales & use tax revenue estimate for 2009 totals \$1,825,705, though we now estimate this year's end collection to be approximately \$1,500,000 to \$1,600,000. However, so long as we maintain our expenditure controls, we should be able to mitigate this revenue slowdown without impacting programs for the remainder of 2009.

Sales Tax Month	2006	2007	2008	2009		Change (bud vs. act)	
				Budget	Actual	\$	%
January	\$ 137,110	\$ 156,986	\$ 106,774	\$ 142,825	\$ 140,444	\$ (2,381)	-1.7%
February	123,338	194,488	111,126	150,894	116,477	(34,417)	-22.8%
March	143,207	148,208	178,228	152,125	125,946	(26,179)	-17.2%
April	131,338	130,211	133,987	138,938	128,375	(10,563)	-7.6%
May	138,482	123,979	123,005	136,499	129,478	(7,021)	-5.1%
June	151,226	161,593	153,441	169,838	132,794	(37,044)	-21.8%
July	138,361	126,952	139,119	138,984	132,444	(6,540)	-4.7%
August	140,179	133,653	132,166	142,954	122,100	(20,854)	-14.6%
September	155,523	163,049	155,999	172,894	147,461	(25,433)	-14.7%
October	129,513	134,858	137,937	140,459			
November	128,789	125,128	134,084	143,383			
December	187,735	157,476	206,307	195,911			
Total	\$1,704,801	\$1,756,581	\$1,712,173	\$1,825,704	\$1,175,519	\$ (170,432)	-12.7%

Gambling Tax

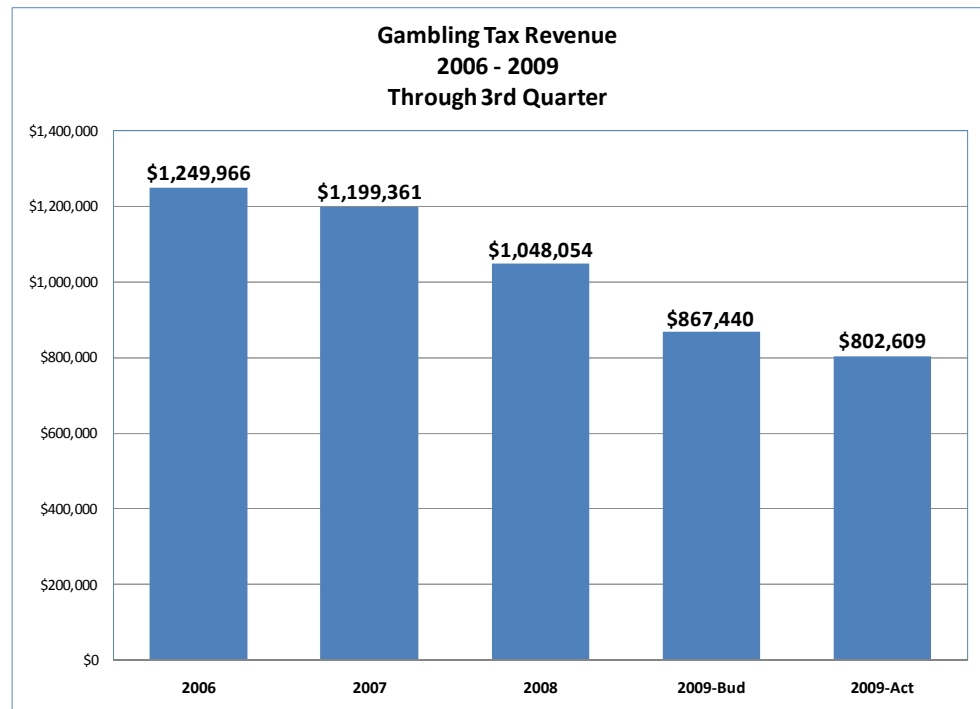
The following graph summarizes gambling tax revenue collections for third quarter 2006 through 2009. Through third quarter 2009, gambling tax collections totaled \$802,609, which is \$64,831, or 7.5% below the control budget estimate (\$867,440).

Compared to third quarter 2008 activity

(\$1,048,054), gambling tax collections have decreased \$245,445, or 23.4%.

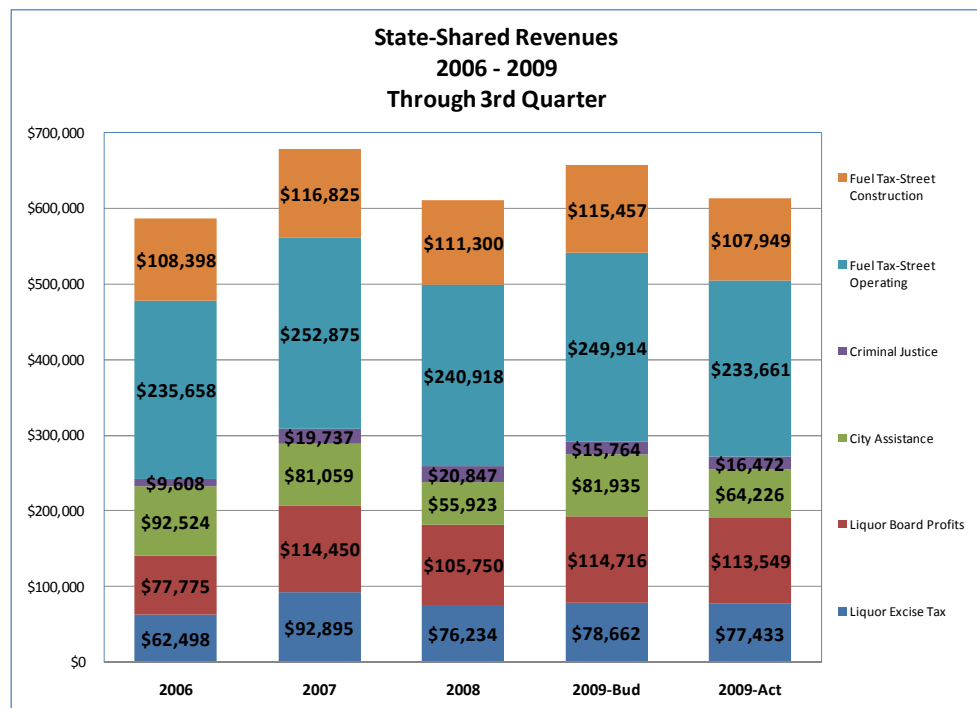
The control budget estimates gambling tax collections will be \$350,000 per year lower than the adopted budget (\$1,506,587) that was projected as part of the adopted 2009-2010 biennial budget in the fall of 2008. This reduction is due to the closure of a casino coupled with the slowdown of activity at the other casinos.

Of particular concern is the City's reliance on gambling taxes for basic municipal services – an estimated total of 10% of General Fund revenue and 8% of total operating revenue. Because of the uncertainty of this revenue source, as is evident by the closure of a casino and the current economic downturn, we need to look for other revenue; otherwise municipal services will be impacted as early as 2010.



State-Shared Revenues

The following graph and table presents a comparison of State-Shared revenues received through third quarter between 2006 and 2009. State-shared revenues totaled \$613,290 through third quarter 2009, which is \$43,157, or 6.6% below the budget estimate (\$656,447). The decrease is attributable again to current economic conditions.



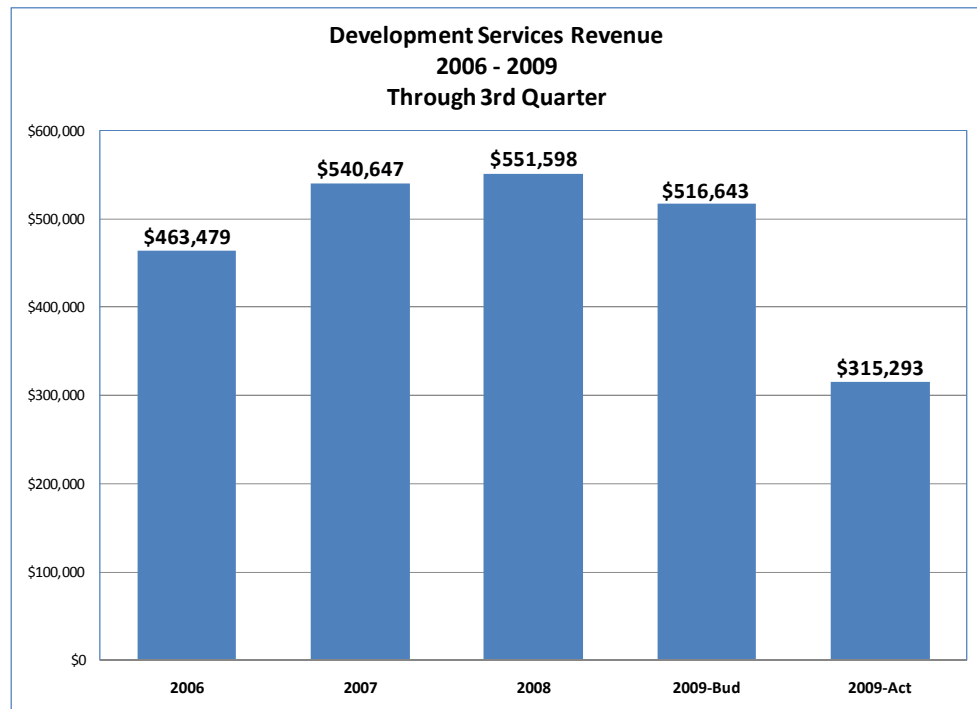
For example, City Assistance funds come from a portion of the State's real estate excise tax. The State's REET collections have been negatively impacted due to the current economic conditions – the result is less City Assistance funds.

Similarly, fuel tax dollars that are required by state law to be used for street operations and construction are below projections due to a decrease in fuel consumption. However, the decrease in fuel tax receipts is offset with additional revenues dedicated specifically for street construction (e.g., unanticipated state & federal funds and investment income).

State-Shared Revenues Source	2006	2007	2008	2009		Change (bud vs. act)	
				Budget	Actual	\$	%
General Fund							
Liquor Excise Tax	\$ 62,498	\$ 92,895	\$ 76,234	\$ 78,662	\$ 77,433	\$ (1,229)	-1.6%
Liquor Board Profits	77,775	114,450	105,750	114,716	113,549	(1,167)	-1.0%
City Assistance	92,524	81,059	55,923	81,935	64,226	(17,709)	-21.6%
Criminal Justice	9,608	19,737	20,847	15,764	16,472	709	4.5%
Total General Fund	\$ 242,405	\$ 308,141	\$ 258,754	\$ 291,076	\$ 271,680	\$ (19,396)	-6.7%
Street Operating Fund							
Fuel Tax-Street Operating	235,658	252,875	240,918	249,914	233,661	(16,253)	-6.5%
Total Street Operating Fund	\$ 235,658	\$ 252,875	\$ 240,918	\$ 249,914	\$ 233,661	\$ (16,253)	-6.5%
Street Construction Fund							
Fuel Tax-Street Constructi	108,398	116,825	111,300	115,457	107,949	(7,508)	-6.5%
Total Street Construction F	\$ 108,398	\$ 116,825	\$ 111,300	\$ 115,457	\$ 107,949	\$ (7,508)	-6.5%
Total State-Shared Revenue	\$ 586,461	\$ 677,841	\$ 610,972	\$ 656,447	\$ 613,290	\$ (43,157)	-6.6%

Development Services Fees

The following graph and table illustrate development services activity to include building permits, engineering, and plan check/zoning fee activity through third quarter between 2006 and 2009. Overall, development services fees collected through third quarter 2009 totaled \$315,293,



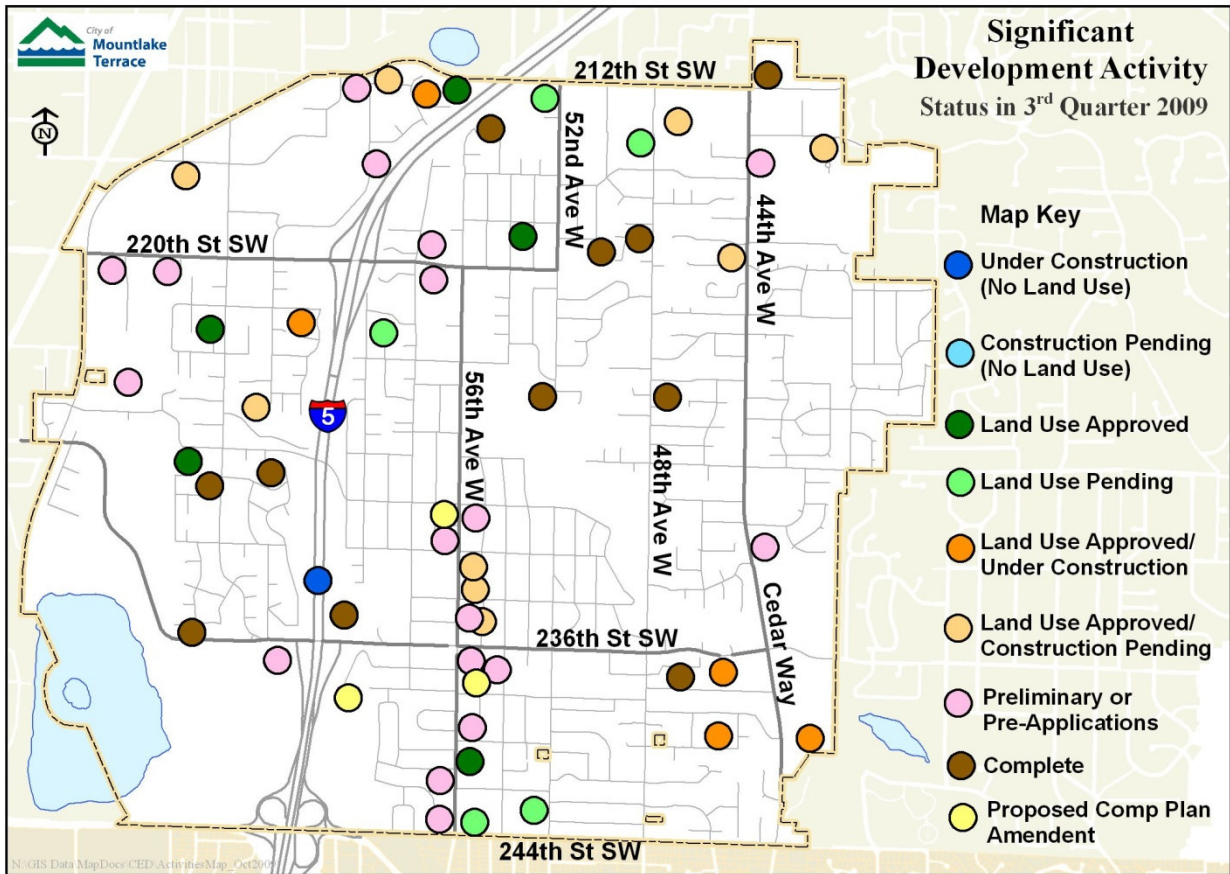
which is \$201,350 or 39.0% below the budget estimate (\$516,643). Compared with 2008 activity (\$551,598), development services fee revenue has decreased \$236,305 or 42.8%.

Development Services Source	2006	2007	2008	2009		Change (bud vs. act)	
				Budget	Actual	\$	%
Building Permits	\$ 190,663	\$ 160,472	\$ 124,788	\$ 196,172	\$ 144,529	\$ (51,643)	-26.3%
Engineering Fees	156,245	166,503	82,753	144,861	52,852	(92,009)	-63.5%
Plan Check/Zoning Fees	116,571	213,672	344,057	175,610	117,912	(57,698)	-32.9%
Total Development Services	\$ 463,479	\$ 540,647	\$ 551,598	\$ 516,643	\$ 315,293	\$ (201,350)	-39.0%

While we have seen a slowdown in development activity (and the revenue that comes with it), our development services program is offsetting the some of the revenue downturn with expenditure savings. The Community and Economic Development Department operating expenditures are \$176,371 or 22.4% below the estimated control budget.

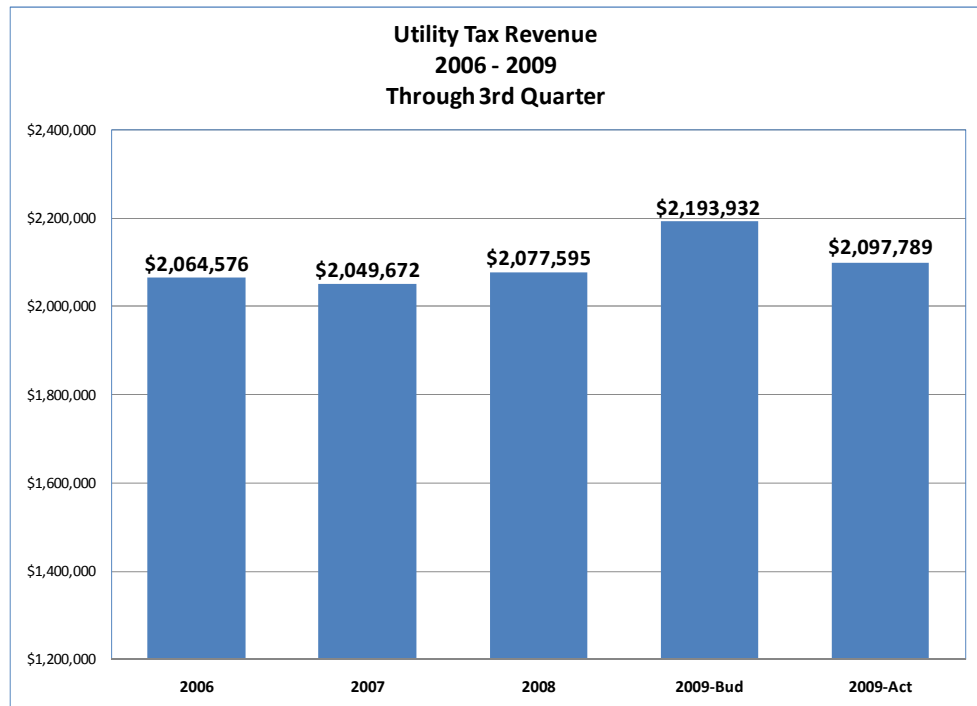
However, if this trend continues, temporary staff reductions in 2010 may have to be implemented in this area as well since these program costs are funded primarily with development fees and the General Fund currently does not have the financial capacity to subsidize these costs.

On the upside, there are approximately forty development projects that are on the horizon for Mountlake Terrace. The anticipated level of activity—even in an economic downturn—indicates: 1) the importance of code updates that the City Council has made during the last two years; and 2) the strong interest in the community, including the future Town Center/Downtown. The centerpiece of the city's economic development strategy is the downtown where private investment and nearby public facilities will bring new relevance and vitality to the community.



Utility Tax

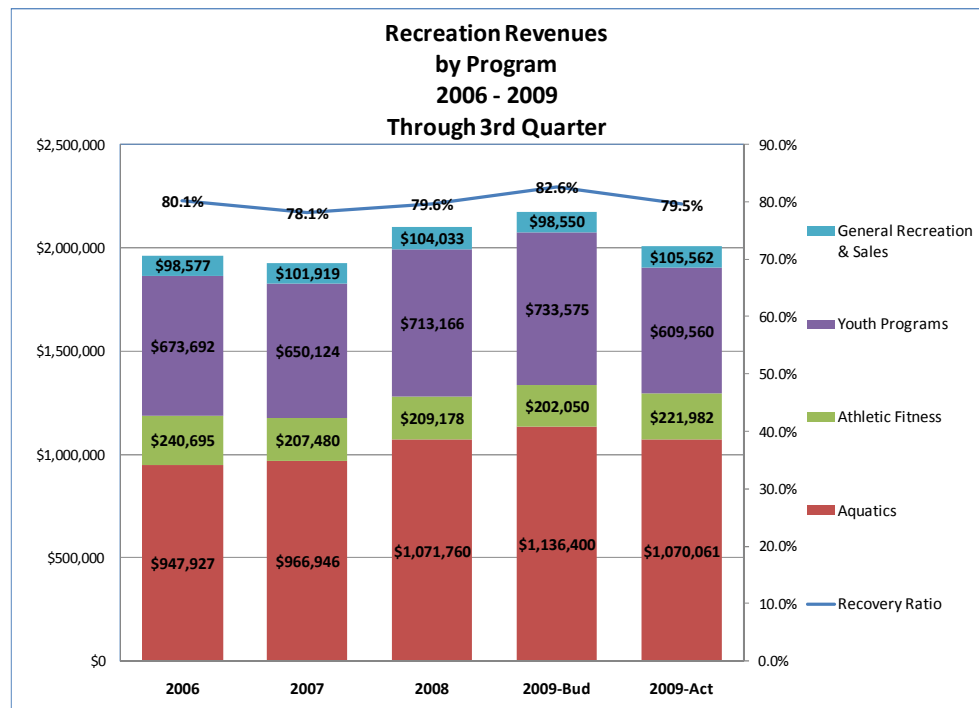
The following graph and table summarize utility tax revenue collections for third quarter 2006 through 2009. Through third quarter 2009, utility tax collections totaled \$2,097,789, which is \$96,143, or 4.4% below the budget estimate (\$2,193,932). Compared to 2008 third quarter activity (\$2,077,595), utility tax collections have increased \$20,194, or 1.0%.



Utility Tax Source	2006	2007	2008	2009		Change (bud vs. act)	
				Budget	Actual	\$	%
Gas	\$ 167,170	\$ 213,600	\$ 206,134	\$ 225,230	\$ 227,211	\$ 1,981	0.9%
Solid Waste	159,922	167,663	157,313	152,959	178,936	25,977	17.0%
Telephone	574,481	588,500	583,436	655,833	550,083	(105,750)	-16.1%
Electricity	486,759	502,382	510,728	509,495	509,823	328	0.1%
Cable	273,231	147,509	154,427	149,659	145,432	(4,227)	-2.8%
City Utilities	403,013	430,018	465,557	500,755	486,304	(14,451)	-2.9%
Total Utility Tax Revenues	\$2,064,576	\$2,049,672	\$2,077,595	\$2,193,932	\$2,097,789	\$ (96,143)	-4.4%

Recreation Program

The following graph and table summarize recreation activity for third quarter 2006 through 2009. Through third quarter 2009, recreation fee collections totaled \$2,007,165, which is \$130,560, or 6.1% below the budget estimate (\$2,137,725). Compared to third quarter 2008 activity (\$2,098,137), recreation fee collections have slowed by \$90,972, or 4.3%.



This lower than expected recreation revenue collections is primarily attributable to the economic slowdown (e.g., youth programs, particularly child care services) and the closure of the pool for two weeks work on the liner earlier this year. However, there is also a lag in the collection of some recreation revenue that will not be received until later in the year relating to third quarter activities.

However, the slowdown in revenue collections has been offset some with program expenditure savings, which are under the control budget estimate by \$62,607 or 2.4%. Compared to 2008, recreation program costs have decreased by \$110,421 or 4.2%, reflecting again the financial prudence being practiced by the Recreation Department.

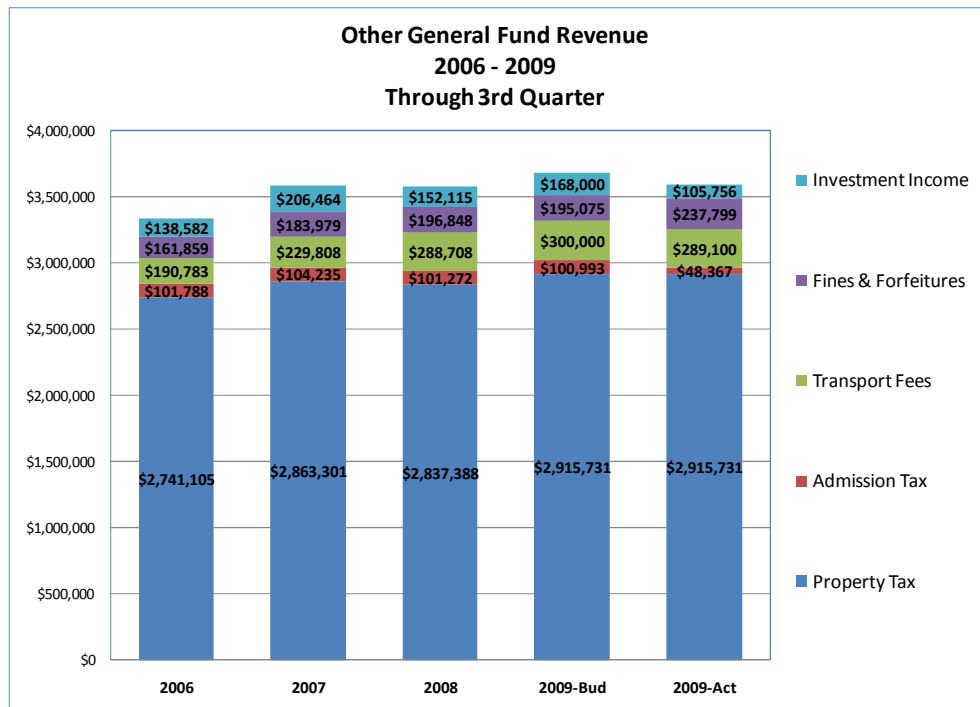
The program's cost recovery ratio is consistent with previous years at 79.5% through three quarters even though the General Fund subsidy is lower than in previous years.

Recreation Program Source & Uses	2006	2007	2008	2009		Change (bud vs. act)	
				Budget	Actual	\$	%
<i>Recreation Fees</i>							
Aquatics	\$ 947,927	\$ 966,946	\$ 1,071,760	\$ 1,136,400	\$ 1,070,061	\$ (66,339)	-5.8%
Athletic Fitness	240,695	207,480	209,178	202,050	221,982	19,932	9.9%
Youth Programs	673,692	650,124	713,166	733,575	609,560	(124,015)	-16.9%
General Recreation	15,305	13,932	10,411	5,600	13,410	7,810	139.5%
Espresso Sales & Concess	83,272	87,987	93,622	60,100	92,152	32,052	53.3%
Program Fees	\$ 1,960,891	\$ 1,926,469	\$ 2,098,137	\$ 2,137,725	\$ 2,007,165	\$ (130,560)	-6.1%
<i>Recreation Program</i>							
Aquatics	\$ 1,175,187	\$ 1,216,030	\$ 1,266,581	\$ 1,167,229	\$ 1,135,580	\$ (31,649)	-2.7%
Athletic Fitness	253,431	240,369	285,302	264,604	232,231	(32,373)	-12.2%
Youth Programs	852,263	850,489	925,489	1,001,363	999,697	(1,666)	-0.2%
General Recreation	29,030	19,908	18,249	14,612	17,692	3,081	21.1%
Debt Service	138,750	138,750	138,750	138,750	138,750	-	0.0%
Program Costs	\$ 2,448,661	\$ 2,465,546	\$ 2,634,371	\$ 2,586,557	\$ 2,523,950	\$ (62,607)	-2.4%
General Fund Subsidy	\$ (487,770)	\$ (539,077)	\$ (536,234)	\$ (448,832)	\$ (516,785)	\$ (67,954)	15.1%
Cost Recovery Ratio	80.1%	78.1%	79.6%	82.6%	79.5%	-3.1%	-3.8%

Other General Fund Revenue

- Property tax revenues collections total \$2,915,731 through third quarter, which is consistent with the budget estimate.

- Admission taxes total \$48,367 through third quarter 2009, which is \$52,626 or 52.1% below the adopted budget (\$100,993) and is indicative of the closure of the Regal



Mountlake 9 Theatre earlier this year. However, this facility reopened in late May after undergoing a significant remodeling as a Cinebarre, which provides its patrons a place to enjoy both dinner and a movie in one place. Initial reports reveal that their unique and different approach to taking in a movie has been very successful and they are enjoying much better success than the former Mountlake 9, which we anticipate will generate both admission taxes and sales tax from the food service.

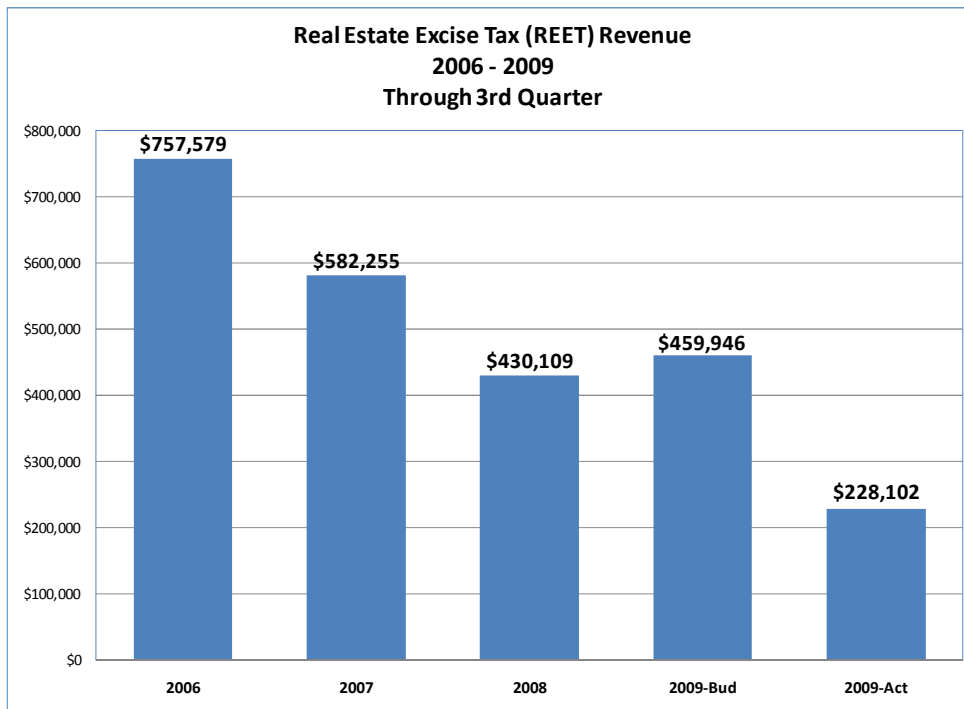
- Transport fees, which represent financial reimbursement from Medicaid, Medicare, and private insurance policies for the cost of providing medically necessary ambulance transportation was slightly below budgetary estimates (\$300,000) by \$10,900 or 3.6%.
- Fines and forfeitures revenues, which are comprised primarily of traffic infractions and criminal citations, are above budgetary estimates (\$195,075) by \$42,724 or 21.9%.
- General Fund investment revenues total \$105,756, which is \$62,244 or 37.1% below the budget estimate (\$168,000). However, all other major funds (capital and utility) are meeting or exceeding budgetary estimates for this revenue source. It is the policy of the City of Mountlake Terrace that funds will be invested in only those investments permitted by Federal and State law as it relates to public funds. The primary objectives for the City's investment activities are (listed in the order of priority): safety, liquidity and yield.

Capital Improvement Funds

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

Sources & Uses	2009						Change (bud vs. act)	
	2006	2007	2008	Budget			\$	%
				Annual	3rd Qtr	Actual		
Capital Improvement Funds								
Beginning Fund Balances	\$ 3,575,170	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 5,623,137	\$ 5,623,137	\$ -	0.0%
Operating Revenues								
Real Estate Excise Tax	966,611	693,101	486,364	600,000	459,946	228,102	(231,844)	-50.4%
Motor Vehicle Fuel Tax	150,104	156,166	149,373	153,943	115,457	107,949	(7,508)	-6.5%
Cable PEG Fees	16,796	16,988	16,916	17,000	12,750	12,916	166	1.3%
Transportation Impact Fees	-	-	2,334	20,000	-	-	-	n/a
Park Impact Fees	-	-	4,224	170,000	-	-	-	n/a
Investment Interest/Other	165,996	282,880	257,504	157,820	118,365	130,130	11,765	9.9%
Subtotal Operating Revenue	1,299,507	1,149,135	916,715	1,118,763	706,518	479,097	(227,421)	-32.2%
Other Financing Sources								
Transfer In: General Fund	741,756	2,126,000	356,000	500,000	375,000	375,000	-	0.0%
Transfer In: Street Operating Fund	419,407	-	-	-	-	-	-	n/a
Transfer In: REET Fund	155,000	1,775,589	228,000	564,373	423,280	276,237	(147,043)	-34.7%
Transfer In: Strategic Reserve Fund	-	-	-	300,000	225,000	225,000	-	0.0%
Transfer In: Accum Leave Reserve Fund	-	500,000	-	-	-	-	-	n/a
Transfer In: Facilities Construction Fund	11,722	299,708	-	-	-	-	-	n/a
BAN Financing	-	-	-	675,144	-	-	-	n/a
Grants	398,257	172,558	118,853	1,245,995	14,156	14,156	-	n/a
Subtotal Other Financing Sources	1,726,142	4,873,855	702,853	3,285,512	1,037,436	890,393	(147,043)	-14.2%
Total Capital Improvement Funds	\$ 6,600,819	\$10,620,305	\$ 8,361,147	\$10,027,412	\$ 7,367,091	\$ 6,992,627	(374,464)	-5.1%
Capital Program								
Overlay Program	\$ 881,419	\$ 483,158	\$ 474,248	\$ 2,088,321	\$ 472,396	\$ 472,396	-	0.0%
Chip & Slurry Seal Program	211,091	155,610	236,245	194,200	450	450	-	n/a
ADA Sidewalk Program	-	-	-	102,000	36,773	36,773	-	n/a
Traffic Calming Program	1,695	5,995	15,152	25,848	-	-	-	n/a
Bicycle Route Program	-	-	-	41,000	-	-	-	n/a
Sidewalk Program	48,175	294,480	55,067	267,043	5,277	5,277	-	n/a
Transportation Plan	-	75,057	-	-	-	-	-	n/a
Traffic & Signal Control Program	182,470	-	26,072	849,091	139,803	139,803	-	0.0%
Interurban Trail Link	39	4,681	150,256	21,444	938	938	-	n/a
Street Reconstruction	8,145	13,659	16,960	1,899,676	188,902	188,902	-	0.0%
Engineering Services	87,000	184,455	238,244	179,303	259,544	259,544	-	0.0%
Capital-Artwork	-	-	7,500	17,500	17,500	17,500	-	0.0%
Capital-Information Technology	65,856	144,111	166,196	372,542	153,722	153,722	-	0.0%
Capital-Community & Economic Develop	-	-	123,940	14,531	-	-	-	n/a
Capital-Property Management	54,870	150,881	481,385	382,860	206,180	206,180	-	0.0%
Capital-Temporary City Hall	-	-	-	675,144	315,832	315,832	-	0.0%
Capital-Parks	-	114,128	280,419	194,400	13,246	13,246	-	0.0%
Capital-Recreation	29,182	13,719	24,870	25,900	14,615	14,615	-	0.0%
Capital-Police	81,226	-	71,206	122,430	60,499	60,499	-	0.0%
Capital-Future Investments	-	320,953	-	-	-	-	-	n/a
Subtotal Other Financing Uses	1,651,168	1,960,887	2,367,760	7,473,233	1,885,677	1,885,677	-	0.0%
Transfer Out (Debt Service & CIP)	352,336	1,917,839	370,250	1,225,986	919,490	772,447	(147,043)	-16.0%
Total Capital Improvement Funds	\$ 2,003,504	\$ 3,878,726	\$ 2,738,010	\$ 8,699,219	\$ 2,805,167	\$ 2,658,124	(147,043)	-5.2%
Fund Balances								
Designated/Reserved:								
P.E.G. (Cable Fees)	\$ 32,309	\$ 37,476	\$ 47,886	\$ 31,392	\$ 55,403	\$ 55,569	166	0.3%
Transportation Impact Fees	-	-	2,334	31,000	2,334	2,334	-	0.0%
Park Impact Fees	56,213	56,213	10,110	174,224	10,110	10,110	-	0.0%
Capital Improvements	4,508,793	6,647,890	5,562,807	1,091,577	4,494,078	4,266,490	(227,588)	-5.1%
Total Ending Fund Balances	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 1,328,193	\$ 4,561,925	\$ 4,334,503	\$ (227,422)	-5.0%

Real Estate Excise Taxes



The following graph and table illustrate collection history for the first and second 1/4 percent real estate excise taxes (REET). The table and graph both reflect the cyclical variation in this revenue source. Through September 2009, REET revenues (\$228,102) were under budgetary estimates (\$459,946) by

\$231,844 or 50.4%. Compared with third quarter 2008 activity (\$430,109), REET revenues have decreased \$202,007 or 88.6%. This decline is reflective of the slowing real estate market. Historically, REET collections pick up during the warmer months, May through August.

Real Estate Excise Tax Month	2006	2007	2008	2009		Change (bud vs. act)	
				Budget	Actual	\$	%
January	\$ 40,033	\$ 47,661	\$ 40,985	\$ 28,096	\$ 45,587	\$ 17,491	62.3%
February	35,329	34,742	34,647	29,485	11,905	(17,580)	-59.6%
March	65,065	61,674	34,183	43,797	15,461	(28,336)	-64.7%
April	64,087	66,041	38,536	44,567	16,750	(27,817)	-62.4%
May	67,692	88,856	128,309	56,840	16,282	(40,558)	-71.4%
June	213,025	112,523	43,814	77,124	21,106	(56,018)	-72.6%
July	135,618	72,816	33,147	77,188	47,594	(29,594)	-38.3%
August	63,927	56,712	28,679	52,806	29,321	(23,485)	-44.5%
September	72,803	41,230	47,809	50,043	24,096	(25,947)	-51.8%
October	110,243	39,594	28,369	54,528			
November	51,404	43,308	12,471	44,372			
December	47,385	27,944	15,415	41,154			
Total REET	\$ 966,611	\$ 693,101	\$ 486,364	\$ 600,000	\$ 228,102	\$ (231,844)	-50.4%

Our REET revenue estimate for 2009 totals \$600,000 and is allocated specifically for capital projects. The good news is that even if we do not meet this revenue objective, our 2009 and 2010 CIP program will not suffer because of ARRA funds and other grant revenue we expect to receive in 2009 that was not anticipated when the budget was prepared last fall.

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

has been successful in obtaining the following federal and state funds that we have or are expected to receive in the coming year – totals approximately \$3.7 million dedicated for much needed capital investments:

52nd/53rd Avenues Water Main Construction Project

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

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

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

230th Street SW Reconstruction Project

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

222nd Street Sidewalk Connection Project

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

Stormwater Program

- \$50,000 - Phase II Stormwater Pass-Through Grant Program in support of NPDES II training, community education, and replacement of street sweeper

Town Center

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

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

Stormwater Program

- \$172,500 – Washington State Stormwater Retrofit and Low-Impact Development Program in support of Hall Creek/230th Culvert project (under review)

Lakeview Trail

- \$200,000 to \$1,400,000 – federal appropriations connecting Mountlake Terrace Transit Center at I-5/236th St West to Interurban Trail along Lakeview Drive

Emergency Response Interoperability

- \$229,400 – federal appropriations to replace and upgrade radio network and communications infrastructure for the Police Department such as radios, training, and equipment (e.g., emergency generators)

Pedestrian/School Safety Sidewalk Project

- \$200,000 - CDBG funds for sidewalks along 222nd St SW between 39th and 44th connecting to Cedar Way Elementary School and Bicentennial Park
- \$350,000 – federal appropriations sidewalks along 214th St SW between 40th and 44th connecting to Mountlake Terrace High School

Evergreen Play Equipment

- \$85,000 - CDBG funds for new play equipment at Evergreen Playfield

Key 2009 Capital Investment Projects

52nd/53rd Avenues Water Main Construction: This project, which began earlier this year, included the installation of approximately a mile and a half of water main that was constructed in 52nd and 53rd Avenues W. The improvements were installed in 52nd Avenue between 212th and 226th. South of 226th the route crossed Terrace Creek Park, past the Recreation Pavilion and along 53rd Avenue to 230th Street. The south end of the project was at 52nd and 230th. Construction is complete.

52nd Avenue W Reconstruction Project (212th to 220th): This project includes repaving nearly one-half mile of 52nd Avenue West, from 212th to 220th. The project scope included constructing new sidewalk ramps, replacing deteriorated curb and sidewalk, making storm and sewer repairs, installing new traffic signs, and restriping the street. Construction is complete.

2009 Chip Seal Program: Residential streets totaling 2.5 miles in two areas were chip sealed in this year's pavement preservation program. One area is bounded by 222nd, 228th, 44th and 48th. The other area was east of Cedar Way and south of 228th adjacent to Cedar Plaza. Construction is complete.

244th Street SW Overlay: This joint jurisdiction project with the City of Shoreline provided the repaving of 244th Street from 56th to Ballinger Way. The work included storm system repairs and new sidewalk ramps. Between 56th and 59th the street was reconfigured to three lanes, with two thru lanes, a two way left turn lane, and bike lanes. Construction is complete.

223rd & 42nd Sidewalk: This project provided a new sidewalk on the south side of 223rd Street SW and on west side of 42nd Place W between the traffic signal at 44th Avenue W and the walkway to Cedar Way Elementary School. It also eliminated a gap in the sidewalk network and created a continuous pedestrian access throughout the neighborhood. Construction is complete.

230th Street SW Reconstruction Project: The reconstruction of this roadway will include two travel lanes, two 5' wide bike lanes, 5' wide sidewalks on both sides, and an intermittent 8' wide parking lane along the street. The improvements include sidewalk ramps, drainage improvements, a revised vertical street profile (between 61st Avenue and the I-5 bridge) to improve sight distance, pavement markings, and street trees. Lastly, a water main will be replaced under the roadway in accordance with the city's comprehensive water system plan. Construction is expected to begin in early 2010.

214th & 44th Traffic Signal: The new signal will enhance safety and increase capacity of 44th Avenue West and 214th Street SW. The project includes interconnecting the new signal with the existing signals at 212th Street SW and 217th Street SW so all three will operate in coordination. Other improvements at the intersection include new sidewalk ramps, uniform street lighting, and consolidation of the two driveways into a single driveway on the west approach to the signal. Construction is scheduled to begin in Spring 2010.

2009 Storm and Sanitary Reconstruction: This project is a combination of smaller storm and sanitary improvements at numerous locations throughout the City. Nearly all of the improvements are undertaken to replace sewer and storm systems that are failing and require

high levels of maintenance, or to make minor modifications to improve access to portions of these systems which are difficult to properly maintain. Construction is scheduled to begin in Spring 2010.

Utility Funds

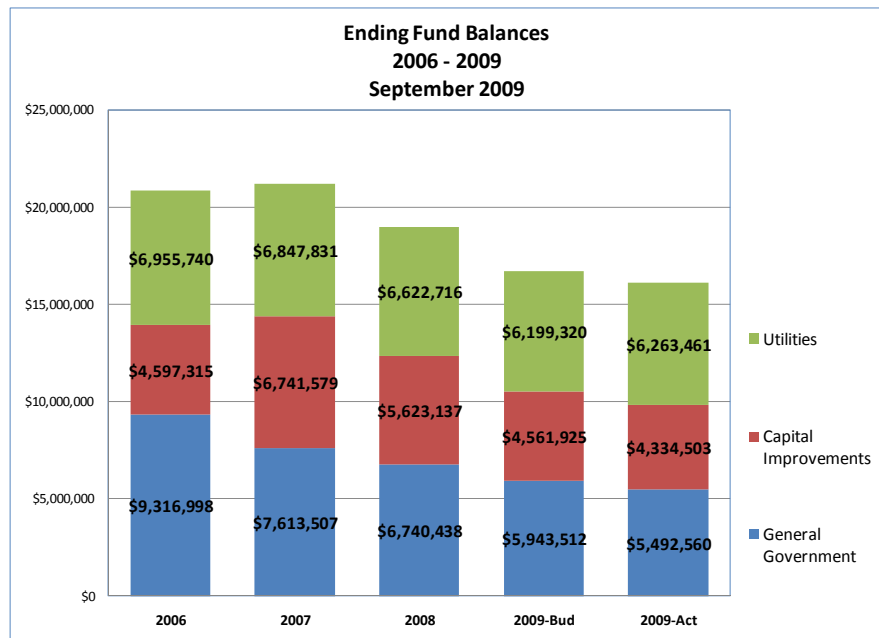
The City operates three utilities: storm water, sewer, and water. Each utility is a stand-alone enterprise fund financed with user fees collected from the customers of each system (i.e., residential property owners, commercial property owners, etc.). These revenue sources are collected to finance both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

- Storm Water: Storm Water operating revenues are exceeding budgetary estimates by \$20,794 or 2.6% through third quarter while operating expenditures are under budgetary estimates by \$23,034 or 2.9% due primarily to lower than anticipated maintenance costs.
- Water: Water operating revenues are exceeding budgetary estimates by \$73,953 or 3.8% through third quarter while operating expenditures are above budgetary estimates by \$91,688 or 5.2% due primarily to higher than anticipated wholesale water costs.
- Sewer: Sewer operating revenues are under budgetary estimates by \$54,022 or 2.4% through third quarter, however this is more than offset with cost savings as operating expenditures are under budgetary estimates by \$92,070 or 4.6% due primarily to lower than anticipated maintenance costs.

Sources & Uses				2009			Change (bud vs. act)	
	2006	2007	2008	Annual	3rd Qtr	Actual	\$	%
Utility Funds								
Beginning Fund Balances	\$7,286,594	\$6,847,767	\$6,936,129	\$6,622,716	\$6,622,716	\$6,622,716	\$ -	0.0%
Operating Revenues								
Storm Water	917,421	931,680	1,018,450	1,159,089	811,362	832,156	20,794	2.6%
Water	2,651,866	2,529,983	2,755,605	2,794,204	1,955,943	2,029,896	73,953	3.8%
Sewer	2,889,815	2,812,790	3,056,971	3,241,029	2,268,720	2,214,698	(54,022)	-2.4%
Subtotal Operating Revenues	6,459,102	6,274,453	6,831,026	7,194,322	5,036,025	5,076,750	40,725	0.8%
Operating Expenditures								
Storm Water	847,183	906,074	909,589	1,119,863	783,904	760,870	(23,034)	-2.9%
Water	2,327,798	2,309,016	2,273,928	2,537,923	1,776,546	1,868,234	91,688	5.2%
Sewer	2,317,565	2,445,042	2,606,838	2,841,894	1,989,326	1,897,256	(92,070)	-4.6%
Debt Service	105,010	105,687	88,882	120,900	120,860	120,860	-	n/a
Subtotal Operating Expenditures	5,597,556	5,765,819	5,879,237	6,620,580	4,670,636	4,647,220	(23,416)	-0.5%
Operating Surplus (Deficit)	861,546	508,634	951,789	573,742	365,389	429,530	64,141	17.6%
Other Financing Sources								
Grants and PWTFL	-	291,200	162,622	477,000	437,507	437,507	-	0.0%
Loan Proceeds	-	-	-	2,500,000	-	-	-	n/a
Transfer from Utility Funds	1,717,093	3,301,158	4,852,924	120,900	90,675	90,675	-	0.0%
Subtotal Other Financing Sources	1,717,093	3,592,358	5,015,546	3,097,900	528,182	528,182	-	0.0%
Other Financing Uses								
Construction Projects	1,300,197	904,846	1,516,706	5,670,974	1,316,967	1,316,967	-	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	5,670,974	1,316,967	1,316,967	-	0.0%
Fund Balances								
Reserves (15% of Oper Exp)	-	-	913,941	974,949	974,949	974,949	-	0.0%
Designated/Reserved:								
Storm Water	1,704,626	1,514,300	1,098,414	2,122,972	991,319	1,035,147	43,828	4.4%
Water	2,951,524	3,260,139	2,576,703	292,473	2,181,692	2,163,957	(17,735)	-0.8%
Sewer	2,148,133	2,073,392	2,033,658	1,232,990	2,081,546	2,119,593	38,048	1.8%
Debt Service	151,457	-	-	-	(30,185)	(30,185)	-	0.0%
Undesignated/Unreserved	-	-	-	-	-	-	-	n/a
Total Ending Fund Balances	\$6,955,740	\$6,847,831	\$6,622,716	\$4,623,384	\$6,199,320	\$6,263,461	\$ 64,141	1.0%

Ending Fund Balances/Reserves

The following graph and table illustrates the City's ending fund balances between 2006 and third quarter 2009. The fund balances are segregated into three major components; reserved/designated (such as Strategic Reserve), contingency and unreserved/undesignated. In summary, we continue to maintain strong reserves consistent with our financial policies.



Ending Fund Balances All Funds	2006	2007	2008	2009		Change (bud vs. act)	
				Budget	Actual	\$	%
<i>General Government</i>							
<i>Reserved/Designated</i>							
Reserves (5% of GF Oper)	\$ 694,768	\$ 672,383	\$ 729,525	\$ 697,005	\$ 697,005	\$ -	0.0%
Strategic Reserve (5% of C)	916,507	959,753	995,309	792,369	792,369	-	0.0%
<i>Reserved/Designated</i>							
Encumbrances	402,437	179,672	185,553	687,674	687,674	-	0.0%
Equipment Replacement	2,294,889	2,307,593	2,345,407	1,503,436	1,503,905	469	0.0%
Hotel/Motel-Tourism	35,922	32,907	34,979	25,867	25,867	-	0.0%
Solid Waste-Billing Exem	58,359	61,628	40,531	30,659	30,659	-	0.0%
Accumulated Leave Res	761,751	283,723	234,381	243,936	240,225	(3,711)	-1.5%
Subtotal Reserved/Designat	5,164,633	4,497,659	4,565,685	3,980,946	3,977,704	(3,242)	-0.1%
Contingency (2% of GF Ope	-	-	-	123,702	139,178	15,476	12.5%
Undesignated/Unreserved (4,152,365	3,115,848	2,174,753	1,838,864	1,375,678	(463,186)	-25.2%
Total General Governmen	\$ 9,316,998	\$ 7,613,507	\$ 6,740,438	\$ 5,943,512	\$ 5,492,560	\$ (450,952)	-7.6%
<i>Capital Improvement</i>							
<i>Reserved/Designated</i>							
P.E.G. (Cable Fees)	32,309	37,476	47,886	55,403	55,569	166	0.3%
Transportation Impact F	-	-	2,334	2,334	2,334	-	0.0%
Park Impact Fees	56,213	56,213	10,110	10,110	10,110	-	0.0%
Capital Improvements	4,508,793	6,647,890	5,562,807	4,494,078	4,266,490	(227,588)	-5.1%
Total Capital Improvemen	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 4,561,925	\$ 4,334,503	\$ (227,422)	-5.0%
<i>Utilities</i>							
Reserves (15% of Oper Ex)	-	-	913,941	974,949	974,949	-	0.0%
<i>Designated/Reserved:</i>							
Storm Water	1,704,626	1,514,300	1,098,414	991,319	1,035,147	43,828	4.4%
Water	2,951,524	3,260,139	2,576,703	2,181,692	2,163,957	(17,735)	-0.8%
Sewer	2,148,133	2,073,392	2,033,658	2,081,546	2,119,593	38,048	1.8%
Debt Service	151,457	-	-	(30,185)	(30,185)	-	n/a
Total Utilities	\$ 6,955,740	\$ 6,847,831	\$ 6,622,716	\$ 6,199,320	\$ 6,263,461	\$ 64,141	1.0%
Total Ending Fund Balance	\$20,870,053	\$21,202,917	\$18,986,291	\$16,704,757	\$16,090,524	\$ (614,233)	-3.7%

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.

Reserved/Designated Ending Fund Balances: The first component of ending fund balances, totaling \$3,977,704 at the end of third quarter 2009, are those moneys that have been earmarked for a strategic reserve fund (\$792,369), equipment replacement reserves (\$1,503,905), accumulated leave reserves (\$240,225), and General Fund reserves totaling 5% of operating expenditures (\$697,005). This reserve designation also include encumbrances from prior and current year (\$687,674), funds dedicated solely for tourism purposes (\$25,867), and solid waste billing exemptions (\$30,659).

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 (\$974,949) in the funds as well as utility funds reserved for construction projects (\$5,224,371). All Capital (\$4,334,503) and Utility Construction Fund balances (\$5,224,371) are reserved for capital (e.g., street, transportation, parks, recreation, public safety, IT) and utility construction projects (e.g., water, sewer, stormwater).

Contingency Reserve Ending Fund Balances: The second component of ending fund balances are those funds reserved for unanticipated future expenditures. For 2009, contingency reserves currently total \$139,178; however these funds were not allocated. The contingency reserve represent 2% of General Fund operating expenditures and are reserved within the General Fund to accommodate unexpected operational changes, legislative impacts, or other economic events affecting the City's operations that could not have been reasonably anticipated at the time the budget was prepared. The City Council determines how the contingency reserve is spent.

Unreserved/Undesignated Fund Balances: The unreserved/undesignated fund balance is the balance of net financial resources that are available for appropriation. This portion of funding is not legally restricted and is available to the Council for one-time appropriation. The current unreserved/undesignated fund balances in the General Fund are set aside for future capital investments and other one-time projects between 2010 and 2014.

Action Strategies and Preventative Measures Implemented

The 2009-2010 Biennial Budget adopted by Council in November 2008 was prepared and finalized before the full impact of the financial and credit market crisis was known. Despite the budget's conservative assumptions for revenue growth in 2009 and 2010, the current economic crisis has caused us to make our forecast even more conservative. The adopted budget projected

General Fund revenues to increase 1.7 percent in 2009 and 2.9 percent in 2010, meaning we have significantly tightened our budget to ensure we live within our means.

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

The good news is that we began implementing steps in 2008 to mitigate the impact to ensure we meet our financial objectives and these steps will continue indefinitely. After prioritizing our services based on life/health/safety, legal mandates, and Council goals and priorities, this table illustrates the financial impact of the following action strategies and preventative approaches implemented to mitigate the downturn in our revenue collections for 2009 through 2014 caused by the faltering economy.

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

- We have eliminated all discretionary spending, 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, which are proposed to total \$1.2 million in 2009, now only include essential vehicles and equipment. Non-essential purchases have been delayed until at least 2010.
- Non-essential information technology, recreation, and park improvements will be delayed until at least 2010.
- All current and future positions that are vacated by attrition (e.g., Management Analyst, Customer Service Specialist, Public Works Supervisor, and two part-time maintenance workers) will not be filled with the exception of police patrol vacancies.
- A vacant maintenance position in our Street Division is being filled in 2009 by employees from our Parks Division.
- The contract for City Attorney services is being reduced to 2002 level of service.
- The Community Specialist position funded from the General Fund has been reduced to half-time (remaining half-time hours will be charged to non-General Fund activities based on workload availability).
- The Civil Engineer II position assigned to review private development projects has been temporarily assigned to work part-time on capital utility projects. This helps alleviate the project load on our engineering staff, while at the same time enabling us to charge one-half of this employee's time to utilities rather than the General Fund.
- Civic Center Utilities and Maintenance budget will be 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 for street projects (e.g., TIB, ARRA) has enabled us to reduce our General Fund contribution to the Street Construction Fund in 2009. As a side note, the only bit of silver lining in this economic downturn is that the bidding climate for public projects is very favorable. For example, construction costs have dropped significantly (e.g., recent water main project, ADA ramps project), primarily because of plunging energy costs and the global economic slowdown. However, these savings do not translate into ongoing savings in our General Fund since our CIP and construction projects are funded with either one-time funds that cannot be used for operations or are funded with revenue that are specific to CIP and construction projects and not eligible to fund General Fund operating activities (i.e., public safety, parks, development services, finance, etc.).
- The recent reduction in gas prices will provide some financial relief in that the current cost per gallon – less than \$3.00 – is less than the \$3.56 anticipated in the adopted budget.

- An employee “Healthcare Task Force” is looking at alternatives to reduce our ever-increasing employee healthcare costs. The City of Mountlake Terrace, like many employers is facing an urgent need to effectively contain the rise in employee health care costs, which average 10-15% annually. The Task Force’s goal is not to just look at what our own costs are, but to look at outside traditional approaches to employee benefits to find innovative ways to balance meeting employee health care needs and the need to control costs.
- Because of the continued deterioration of the economy and the projected ongoing loss of a key General Fund operating revenue source, an additional step includes the elimination of two regular, full-time Customer Service Specialist positions effective October 1, 2009. The duties of these positions has been assigned to employees in the Administrative Services Department who, according to an independent review earlier this year, have capacity to pick up the additional tasks. However, this does not mean that the two employees will be leaving the City. The employees in these two Customer Service Specialist positions will be encouraged to apply for other prioritized job openings in the City that occur through attrition or when the economy improves. This opportunity, which will include positions in utility maintenance and police, will provide those two employees opportunities to remain as employees with the City.
- The Administrative Services Department will begin providing financial services to Southwest Snohomish County Communications Agency (SNOCOM) beginning November 1, 2009 and ending December 31, 2010 generating General Fund income equal to approximately one-half of the salary and benefits for a finance position during the term of the agreement. The Administrative Services Department is capable of assuming these tasks based upon the independent review conducted earlier this year that showed the department has the capacity to pick up the additional tasks.
- Lastly, the City previously streamlined the following services that has resulted in annual budgetary savings totaling \$1,550,000 dating back to 2005:
 - Contract for fire & EMS services (\$600,000 per year beginning in 2005)
 - Custodial services transitioned from in-house to contract (\$250,000 per year beginning in 2007)
 - Elimination of five management positions (\$400,000 per year beginning in 2006)
 - Fleet management best practices (\$300,000 per year beginning in 2009)

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

Other Options

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

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

Although the City has funds set aside for unanticipated events, my recommendation is to hold off on using these dollars at this time; we may need them in the future if the economy does not improve.

More importantly, the current economic climate has created a structural problem in our General Fund, meaning the use of reserves now does not address the ongoing and permanent loss of tax revenues.

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

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

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

Although a reduction in street construction projects could temporarily save some money in the General Fund, doing so creates a higher cost in the long term because our roads and other infrastructure deteriorate at a faster rate as they age. In other words, if we delay or cancel our construction projects, we will have more expensive projects in the future. At the same time, delaying these projects at this time fails to take advantage of a very favorable bid climate, where our costs for street projects are as much as 30 percent lower than anticipated.

It will also eliminate our ability to leverage these resources with state and federal funds to continue to revitalize our basic infrastructure system (street overlays, sidewalks, street reconstruction projects, etc.).

Temporary Reductions in Development Services:

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

Economic Development:

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

Conclusion

Given the current economic volatility and as previously communicated during the budget process last year and throughout this year, we will continue to evaluate revenues and expenditures on a regular basis and allocate resources in a manner that ensures first and foremost that no services to our residents will need to be reduced, eliminated or cut.

This approach coupled with the action strategies and preventative approaches outlined above will allow us to meet our financial objectives for 2009 and deals with the structural problem created by the continued deterioration of the economy and its negative impact on our operating revenues.

This approach will also allow us to continue to focus on the City Council and community's goals of ensuring the city's financial health and stability, economic development, capital infrastructure investment, communication and outreach with the community, and key essential public services such as public safety, parks, development services, recreation, streets, and utilities.

Attachments

- Attachment A - Third Quarter 2009 Financial Report Detail
- Attachment B – Municipal Court & Jail Services Expenditure Detail