

MEMORANDUM

TO: City Council

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

DATE: March 15, 2010

SUBJECT: **Quarterly Financial Report
Fourth Quarter - January through December 2009**

Overview

This report is intended to provide an overview of financial activity that has taken place from January 1, 2009 through December 31, 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 December 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 in June and December, 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.

In summary, 2009 was another successful year for the City of Mountlake Terrace, both from an operational perspective and financial one, which reflects sound financial and management policies practiced by the City. Overall, most financial projections are tracking consistent with the 2009 revised 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.

Annual Audit

Our 2009 audit, in partnership with the State Auditor's Office (SAO) has begun. We will again for 2009 be preparing a Comprehensive Annual Financial Report (CAFR), which goes beyond the financial reporting, required by both the SAO and those, required as part of generally accepted accounting principles (GAAP). The 2009 CAFR is expected to be completed by the end of June 2010.

The result of this increased financial reporting is that for the third year in a row, the City has been awarded the Certificate of Achievement for Excellence in Financial Reporting by the

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

The City of Mountlake Terrace is one of approximately 35 cities in Washington State to receive a Certificate. The City is also only one of 22 cities in the state to receive certificates for both the CAFR and the Distinguished Budget Award from GFOA. About 4.9% of cities nationwide receive the award (only 1,747 cities nationwide out of 35,932 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

There is no doubt that these are unprecedented times for our citizens, businesses and economy, both locally and nationally. These are also extraordinarily tough times for local government. We are all in the situation where local government revenue continues to decrease at alarming rates. In just the past year, many local governments both in our region and in other parts of the country have had to implement significant downsizing of services to include layoffs of public safety personnel as a result of insufficient funding for municipal services.

The “Great Recession” that began in late 2007 and is expected to last at least through 2010 and perhaps longer, continues to weaken our economy. It is expected that even when the “Great Recession” is over and economic activity begins to improve, the financial crisis facing local government will continue for years meaning that recovery will not happen overnight.

The result of this recession has been not only massive layoffs with unemployment approaching double digits, but also a significant amount of those who are under-employed. Combined, it is estimated that upwards of 20-25% are unemployed or under-employed. Our nation has not experienced this type of job loss in over 50 years. Also contributing to the lack of economic activity and investment continues to be slumping real estate market, considerable 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.

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

For example, 2009 General Fund revenue collections, which finances key municipal services such as police, jail, court, fire, EMS, streets, parks, recreation, land use, and development services has declined almost \$1.1 million or 7.1% from 2006.

However, we continue to meet our operational objectives and most of our financial objectives through 2009. For example, our General Fund experienced an operating surplus totaling \$165,646 or 1.2% operating margin meaning that we “lived within our means” in 2009 – from an

operating perspective we did not spend more than we received. It is imperative that we not stray from this practice and continue to focus on controlling costs especially since our General Fund revenues have experienced -2.4% annual growth between 2006 and 2009.

This proactive and ongoing financial prudence reflects sound financial and management policies practiced by the City. When coupled with the action strategies that have been implemented by our department directors and their staff, it will ensure that key municipal services that are provided to our citizens are not reduced and will ensure 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 decline in General Fund revenue collections the past few years. 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 such as ours may be 2010, 2011, 2012 and beyond.

One bright spot is in the area of capital and construction investment in 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 City Council has set aside over \$66 million from 2006-2014 to make important improvements to our streets, parks, sidewalks, facilities, utilities and open space areas. In addition, the city continues to proactively pursue state and federal funding to implement this unprecedented capital improvement plan to upgrade our aging infrastructure. The result is that the city has leveraged about \$3.9 million in outside federal and state funding for capital improvements in the last 18-plus months. The receipt of these unanticipated funds has allowed the City to minimize the General Fund contribution in support of capital/construction projects, thus preserving core operational services. In addition, the receipt of these funds has offset the considerable drop in REET.

The City of Mountlake Terrace has become well accustomed to delivering much more for less, indeed, we have, thus far, 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 ensure we live within our means.

We will continue with these steps along with others we implemented in mid-2008 to mitigate the impact of the recession to ensure we meet our key operational and financial objectives in 2010 and beyond just as we did in 2008 and 2009. These steps will continue indefinitely to ensure services to our residents will not have to be reduced.

The result of this is during some of the most difficult years in recent memory, the City of Mountlake Terrace is in an enviable position of being to maintain basic municipal services as long as we continue to practice prudent financial such as having a balanced budget, staying the course with our six-year financial forecast and a continued focus to live within our means as outlined in the preventative measures we have put in place.

Town Center & Economic Development

Overview

There are over 45 development projects that are on the horizon for Mountlake Terrace (see Attachment C). The anticipated level of activity, even in an economic downturn as severe as this one, reflects very positively upon our community and indicates: 1) the importance of code updates to include the Town Center Plan that the City Council has made during the last few years; and 2) the strong interest in the community, particularly the Town Center/Downtown area, 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.

Projects in the planning stage include several in just the Town Center area that will total over \$65 million in private investment (see Attachment D). For comparative purposes, the City has averaged approximately \$15-20 million in new construction annually for the past 20 years, again a positive reflection of the City positioning itself for redevelopment and reinvestment. However, given the current economic climate coupled with very tight credit markets, it will take time for many of these projects to move forward.

Private Investment

Two examples of private investment projects currently moving forward include:

1. Vineyard Park, to be located on the Distinctive Countertop and Electric City parcels is a mixed use 4-story project that will have about 10,000 square feet of commercial space and approximately 115 living units. The developer is Urban Innovations Group (UIG). (They have also expressed interest in redeveloping the Roger's Market site; however the development timeframe is currently uncertain and not likely for at least the next 2 years.)
2. The "Mixed Use Project @ 56th Ave. W & 236th St. SW" is a mixed use 5-story project that will have 11,000 square feet of commercial space and 123 residential units. The developer is Yuko Abe who developed the adjacent mixed use project to the south of this project site. Construction could begin later this year.

Public Investment

In the meantime, we will continue to focus on economic development as outlined in Council's goals, specifically in our commercial areas, including our downtown with a continued focus of facilitating interest in our community and its many benefits coupled with building public infrastructure consistent with our six-year capital improvement plan. Examples of public infrastructure projects recently completed and/or underway that will benefit the revitalization and redevelopment of our downtown include:

1. Downtown Water Main System Replacement -- this project provides for the construction of a system of larger water mains to feed the core downtown center. These water system improvements are needed to provide flows meeting modern fire fighting standards and help to revitalize our Town Center.
 - a) Phase 1 (completed in 2009): 52nd & 53rd Avenues W, between 220th to 230th; in 230th Street SW, between 53rd and 55th; in 55th Avenue W, between 230th and 236th; and in 234th Street SW, between 55th and 56th.

- b) Phase 2 (construction in 2010): 55th Avenue W from 230th to the 23700 block, and in 230th and 234th Streets SW from 55th to 56th.
2. Storm Water Detention & Water Quality Improvements -- a new storm water detention facility that will be located in the new Civic Campus will address three areas: 1) water quality in the Lake Ballinger/McAleer Creek watershed basin; 2) spur economic development by providing a regional storm detention facility to serve properties in our downtown core; and 3) meet required site improvements necessary for the Civic Campus.
 3. Lakeview Trail -- this project, which is approximately 1 mile in length, will expand the multimodal nature of the new Mountlake Terrace Transit Center and adjacent Mountlake Terrace Freeway Station by creating a direct bicycle and pedestrian route to the interurban Trail, a popular regional biking and walking corridor. The trail will also connect users in nearby neighborhoods to parks, playfields, Lake Ballinger and the nearby Mountlake Terrace Town Center.
 4. 230th Street SW Reconstruction Project -- this reconstruction project located at the northern boundary of the downtown provides for the reconstruction of a two-lane, gravel shouldered street with curbs, gutters, sidewalks, sidewalk ramps meeting with the American Disabilities Act (ADA) design criteria, drainage and street trees. This street, which is also a primary pedestrian path across I-5 connects residents west of I-5 to the Town Center, Civic Facilities and Recreation Pavilion. It is also a key transit route for Community Transit and Edmonds School District.
 5. Energy Conservation Tool Kit for Town Center Development -- this project, funded by the Washington State Department of Commerce under the American Recovery Reinvestment Act, will be undertaken in partnership with the Urban Innovations Group (UIG), to develop a development review and inspection process, including an energy conservation “tool kit,” that will result in more energy-efficient development in the Town Center. Ultimately, the tool kit is intended to be adaptable to other key areas within the City or in other communities.
 6. Energy-Efficient Transportation Choices Project -- this project, also funded by the Washington State Department of Commerce under the American Recovery Reinvestment Act, is to plan for Sound Transit light rail and transit-oriented development, including bicycle and pedestrian connections, especially in the vicinity of I-5 and 236th, in partnership with Sound Transit and Community Transit.

Next Steps

The City will next begin to evaluate other financing options for Town Center infrastructure improvements (e.g., 56th Avenue West Reconstruction between 230th to 236th, East/West Town Square Circulator, and Town Center Public Plaza) that will build upon the public investments already underway that in turn will help promote and attract economic development in our downtown.

While Washington State has a limited set of economic development financing tools to build infrastructure, our state is one of the few states in the nation that does not have “tax increment financing” (“TIF”) as a standard economic development tool. Tax increment financing is based on the concept of using debt financing to pay for infrastructure projects that, when completed, will spur development and help create increased property values, which can then provide increased tax revenue to pay back the debt.

However, the Washington State Legislature has in recent years, created three versions of “TIF light”, not quite the real thing, but having some similar characteristics. These versions are:

1. Community Revitalization Funding (CRF) -- this is a special option for leveraging sales tax under Chapter 39.89 RCW. However, because this tool is viewed as complex and of marginal benefit, it has been virtually unused;
2. Local Infrastructure Financing Tool (“LIFT”) -- this program provides a state sales tax credit in connection with “revenue development areas” but by statute is permanently applicable to only one city in any given county. (Mountlake Terrace is not such a city.)
3. Local Revitalization Financing (“LRF”) -- this is the newest economic development tool, adopted in 2009; it is somewhat complex and only a few jurisdictions can qualify in any given year; however, it has the advantage of providing sizeable funds for capital projects.

In the coming year, the City will review these tools including the option of creating a “revitalization area” in our downtown to allow certain future tax revenues that increase within the area to finance local public improvements (56th Avenue West Reconstruction between 230th to 236th, East/West Town Square Circulator, and Town Center Public Plaza). Other options include seeking legislative changes to allow our community to qualify for these tools.

The following sources of future revenues may then be used for the payment of bonds, which could be issued to finance improvements: increased local sales/use tax revenues and property tax revenues generated from within the revitalization area, as well as additional funds from other local public sources such as dedicated park impact fees; and a local sales/use tax that is credited against the state tax.

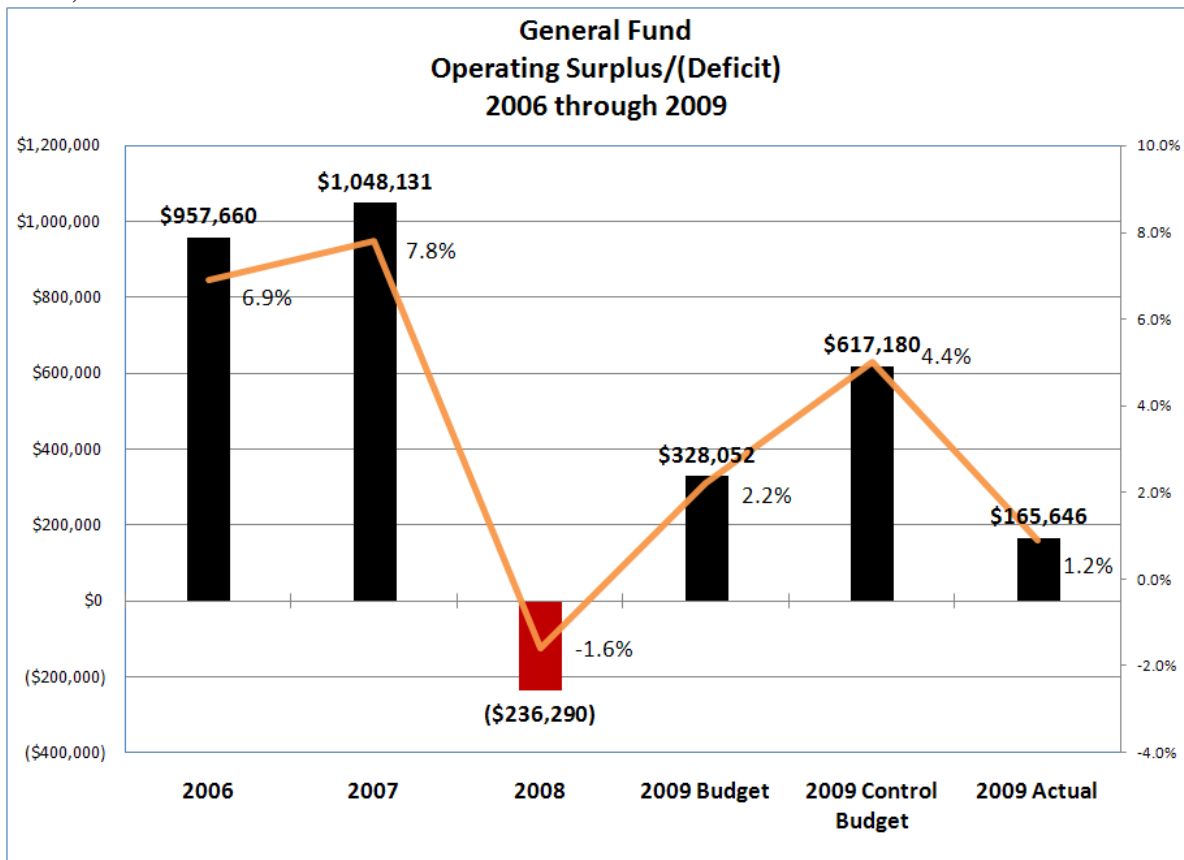
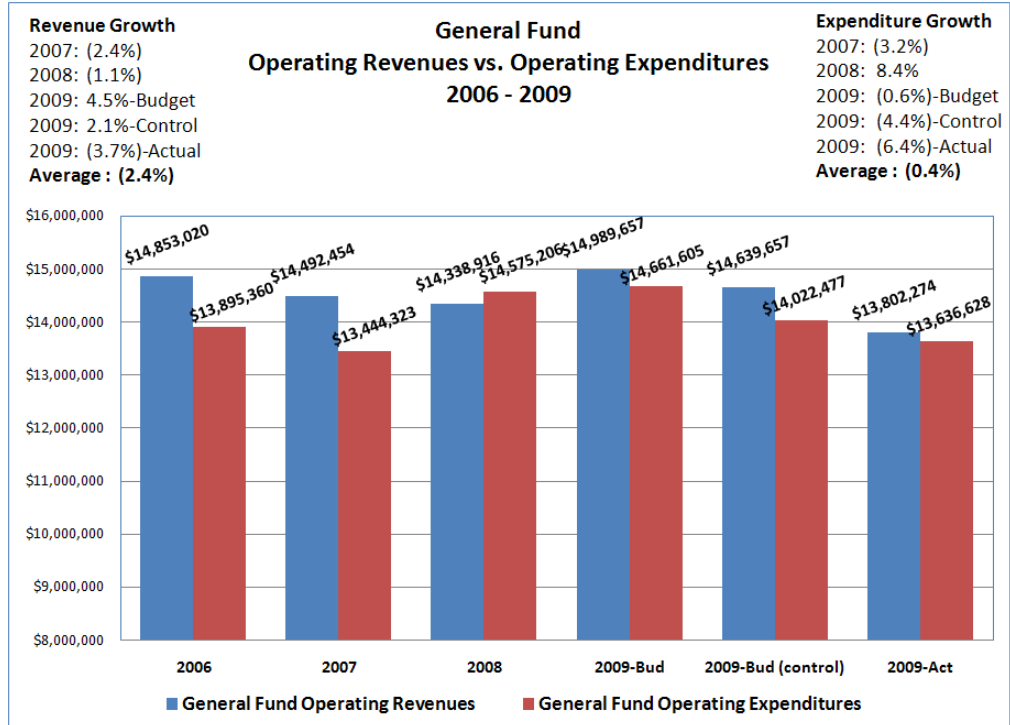
Closing

Ultimately, the result will be not only an economically viable downtown and sustainable business environment well situated for growth and prosperity, but also an attractive community in which to live, work, and play. The outcome will be a vital, attractive downtown for Mountlake Terrace, not only for this generation, but also for the next generation.

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

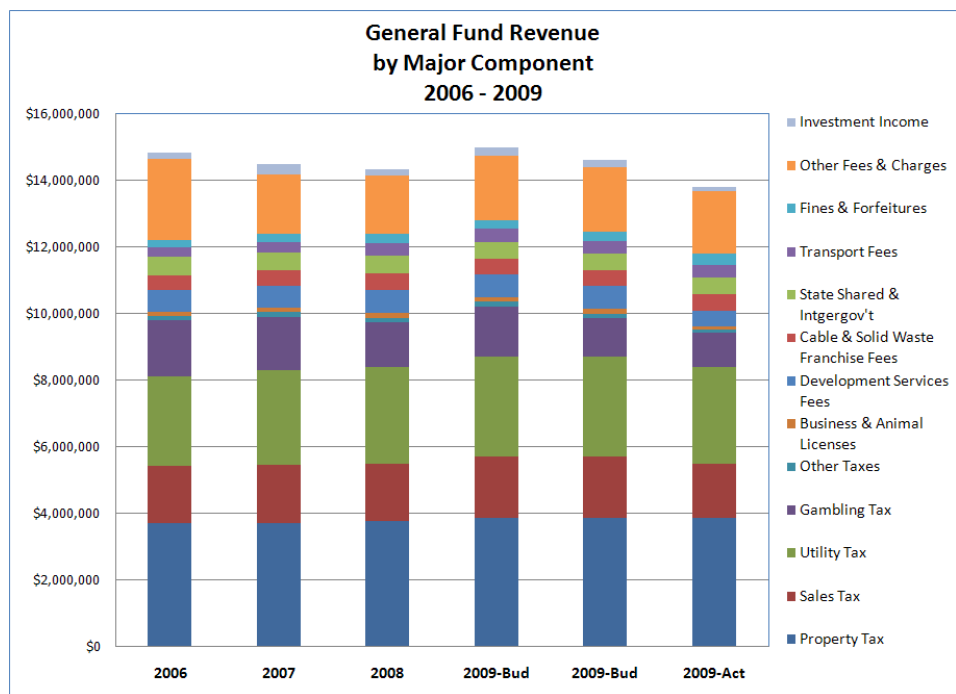
community outreach and information consists of the following funds: General; Street Operations; Recreation; Debt Service; Strategic Reserve; Fleet Management; Hotel/Motel Tax; Solid Waste Service; and Accumulated Leave Reserve.



Resources by Fund	2009						Change (cntrl bud vs. act)	
	2006	2007	2008	Budget			\$	%
				Revised	Control	Actual		
General Government								
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	3,887,641	3,859,928	(27,713)	-0.7%
Sales Tax	1,704,801	1,756,581	1,712,184	1,825,705	1,825,705	1,648,902	(176,803)	-9.7%
Utility Tax	2,700,443	2,823,206	2,897,238	3,005,386	3,005,386	2,896,446	(108,940)	-3.6%
Gambling Tax	1,681,265	1,609,601	1,338,964	1,506,587	1,156,587	1,036,730	(119,857)	-10.4%
Other Taxes	141,588	138,687	138,814	138,657	138,657	75,458	(63,199)	-45.6%
Business & Animal Licenses	127,184	139,758	151,698	143,338	143,338	103,870	(39,468)	-27.5%
Development Services Fees	638,875	661,820	692,908	688,857	688,857	473,463	(215,394)	-31.3%
Cable & Solid Waste Franchise Fees	431,546	466,090	488,962	451,672	451,672	511,423	59,751	13.2%
State Shared & Intergov't	569,274	521,996	532,413	499,764	499,764	487,837	(11,927)	-2.4%
Transport Fees	270,067	311,483	377,845	400,000	400,000	377,134	(22,866)	-5.7%
Fines & Forfeitures	242,439	263,760	295,775	260,100	260,100	330,563	70,463	27.1%
Other Fees & Charges	2,411,950	1,769,874	1,734,268	1,941,950	1,941,950	1,882,852	(59,098)	-3.0%
Investment Income	211,529	307,416	190,364	240,000	240,000	117,668	(122,332)	-51.0%
Total General Fund Operating Revenues	14,853,020	14,492,454	14,338,916	14,989,657	14,639,657	13,802,274	(837,383)	-5.7%
Street Operating	367,879	379,475	358,187	368,242	368,242	343,282	(24,960)	-6.8%
Recreation	2,583,003	2,502,136	2,696,972	2,872,100	2,894,100	2,607,733	(286,367)	-9.9%
Debt Service	201,204	192,197	168,371	3,000	3,000	9,376	6,376	212.5%
Total General Govt Operating Revenues	18,005,106	17,566,262	17,562,446	18,232,999	17,904,999	16,762,665	(1,142,334)	-6.4%
Other Financing Sources								
Strategic Reserve	35,297	43,246	35,556	40,000	40,000	25,492	(14,508)	-36.3%
Fleet Management	769,249	775,957	825,413	749,593	749,593	727,802	(21,791)	-2.9%
Hotel/Motel Tax	26,775	21,985	27,072	22,207	22,207	23,304	1,097	4.9%
Solid Waste Service	17,500	17,500	-	17,500	17,500	17,500	-	0.0%
Accumulated Leave Reserve	29,337	21,972	10,226	11,600	11,600	6,959	(4,641)	-40.0%
General	438,680	209,110	98,938	20,000	20,000	40,077	20,077	100.4%
Street Operating	542,851	247,918	476,132	502,542	502,542	427,100	(75,442)	-15.0%
Recreation	604,854	696,617	682,363	602,642	554,642	622,229	67,587	12.2%
Debt Service	628,825	623,700	637,407	846,613	846,613	846,613	-	0.0%
Fleet Management	3,911	-	35,948	148,500	148,500	79,455	(69,045)	-46.5%
Total Other Financing Sources	3,097,279	2,658,005	2,829,055	2,961,197	2,913,197	2,816,531	(96,666)	-3.3%
Total All General Government Funds	\$30,566,646	\$29,553,590	\$28,005,008	\$27,934,634	\$27,558,634	\$26,319,634	\$ (1,239,000)	-4.5%

Revenues

Overall, General Fund operating revenues (\$13,802,274) collected through December 2009 is below the control budget estimate (\$14,639,657) by \$837,383 or 5.7%. Compared with 2008 collections (\$14,338,916), operating revenues have decreased \$536,642 or 3.7%, which further illustrates the impact of the faltering economy.



Total general government sources (\$26,319,634) are below the control budget estimate (\$27,558,634) by \$1,239,000 or 4.5%. 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.

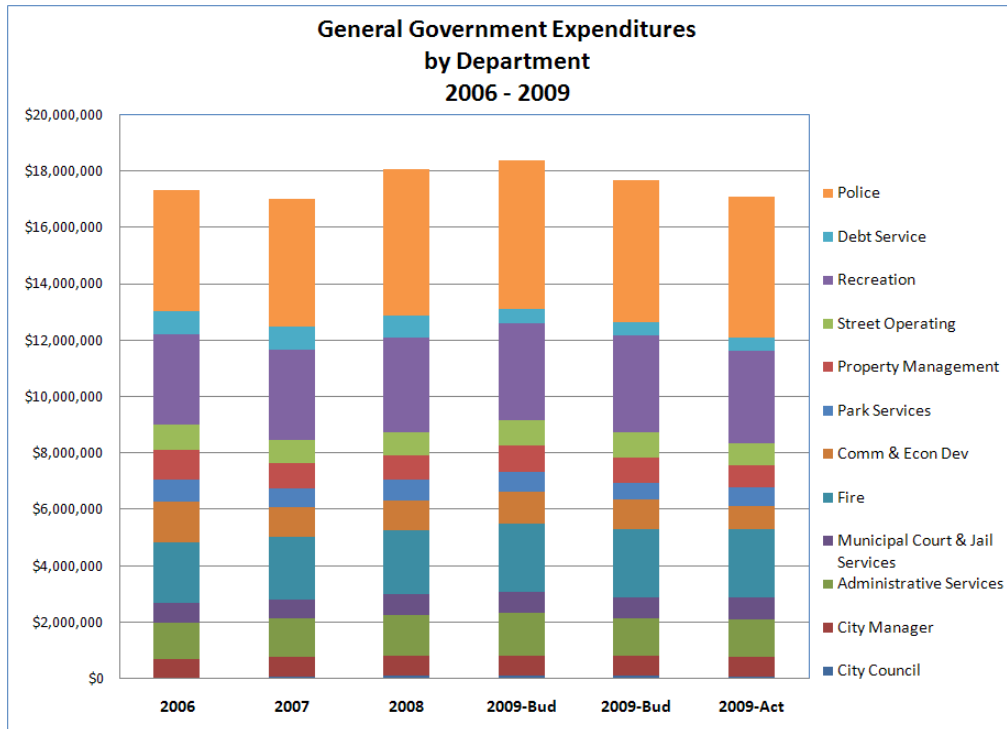
Expenditures

General Fund operating expenditures (\$13,636,628) through December 2009 are below the control budget estimate (\$14,022,477) by \$385,849 or 2.8% and are below the revised budget (\$14,661,605) by \$1,024,977 or 7.0%, which offsets some of the lower than anticipated general fund revenue collections. Likewise, total general government expenditures (\$20,875,185) are below the control budget estimate (\$21,788,453) by \$913,268 or 4.2% and revised budget estimate (\$22,512,431) by \$1,637,246 or 7.3%, 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.

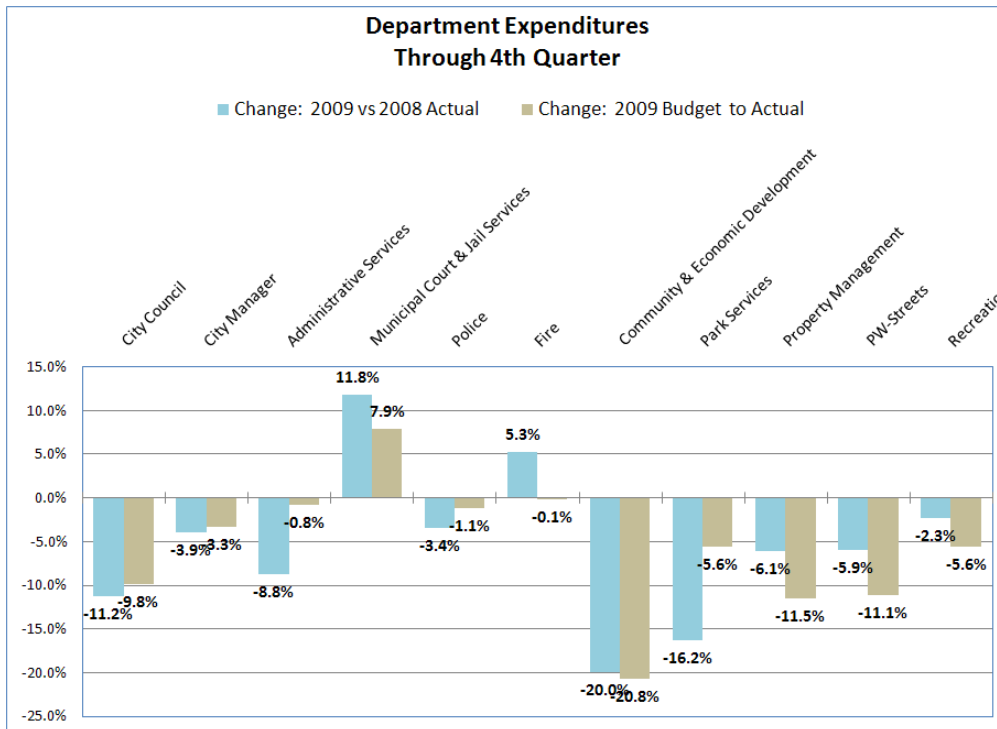
Expenditures by Fund				2009			Change (cntrl bud vs. act)	
	2006	2007	2008	Revised	Control	Actual	\$	%
General Government								
General								
City Council	incl with CM	\$ 96,659	\$ 104,753	\$ 104,530	\$ 103,130	\$ 92,979	\$ (10,151)	-9.8%
City Manager	707,667	671,925	719,173	724,172	714,022	690,777	(23,245)	-3.3%
Administrative Services	1,269,046	1,374,134	1,460,074	1,507,691	1,342,741	1,331,808	(10,933)	-0.8%
Municipal Court & Jail Services	708,455	673,956	710,570	761,478	736,478	794,770	58,292	7.9%
Police	4,285,179	4,527,696	5,171,253	5,269,076	5,052,384	4,996,051	(56,333)	-1.1%
Fire	2,156,172	2,224,941	2,289,888	2,405,135	2,413,953	2,411,618	(2,335)	-0.1%
Community & Economic Development	1,437,758	1,034,661	1,038,427	1,119,459	1,048,743	831,051	(217,692)	-20.8%
Park Services	772,235	688,783	752,220	727,046	667,508	630,125	(37,383)	-5.6%
Property Management	1,074,654	910,583	860,196	937,834	912,834	808,120	(104,714)	-11.5%
Oper Transfer Out-Debt Svc	336,489	296,450	310,157	-	-	-	-	n/a
Oper Transfer Out-Streets	542,851	247,918	476,132	502,542	476,042	427,100	(48,942)	-10.3%
Oper Transfer Out-Recreation	419,854	511,617	497,363	417,642	369,642	437,229	67,587	18.3%
Oper Transfer Out- Rec Debt Svc	185,000	185,000	185,000	185,000	185,000	185,000	-	0.0%
Total General Fund	13,895,360	13,444,323	14,575,206	14,661,605	14,022,477	13,636,628	(385,849)	-2.8%
Operating Surplus/(Deficit)	957,660	1,048,131	(236,290)	328,052	617,180	165,646	(451,534)	-73.2%
Street Operating	905,215	808,987	825,968	873,969	873,969	777,237	(96,732)	-11.1%
Recreation	3,208,442	3,202,052	3,333,259	3,474,742	3,448,742	3,255,891	(192,851)	-5.6%
Debt Service	823,478	822,448	805,778	479,613	479,613	454,965	(24,648)	-5.1%
Total General Government Funds	18,832,495	18,277,810	19,540,211	19,489,929	18,824,801	18,124,721	(700,080)	-3.7%
Other Financing Uses								
Fleet Management	628,542	763,253	823,547	1,802,169	1,802,169	1,568,298	(233,871)	-13.0%
Hotel/Motel Tax	19,302	25,000	25,000	29,833	29,833	28,105	(1,728)	n/a
Solid Waste Service	25,199	14,231	21,097	30,426	30,426	30,345	(81)	-0.3%
Accumulated Leave Reserve	-	500,000	59,568	-	-	-	-	n/a
General	1,324,703	2,359,789	795,147	860,074	801,224	823,716	22,492	2.8%
Strategic Reserve	419,407	-	-	300,000	300,000	300,000	-	0.0%
Other Financing Uses	2,417,153	3,662,273	1,724,359	3,022,502	2,963,652	2,750,464	(213,188)	-7.2%
Total All General Government Funds	\$21,249,648	\$21,940,083	\$21,264,570	\$22,512,431	\$21,788,453	\$20,875,185	\$ (913,268)	-4.2%

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

Compared with 2008 general fund expenditure activity (\$14,575,206), operating expenditures have decreased \$938,578 or 6.4%, which again is attributable to the financial prudence being practiced by our department directors and their staff.



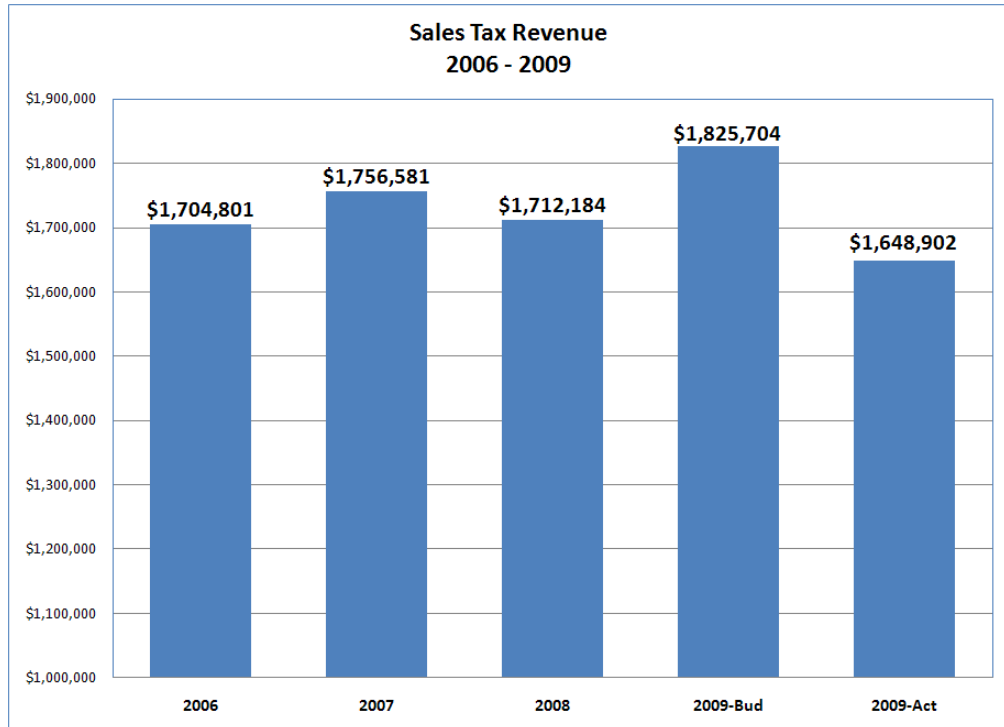
The result is that while our 2009 revenue collections continue to slow compared to budget and 2008 collections, we have put in measures that are working to ensure: 1) we live within our means; 2) we maintain an positive operating surplus (no use of one-time funds for ongoing programs and services); 3) 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.



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.



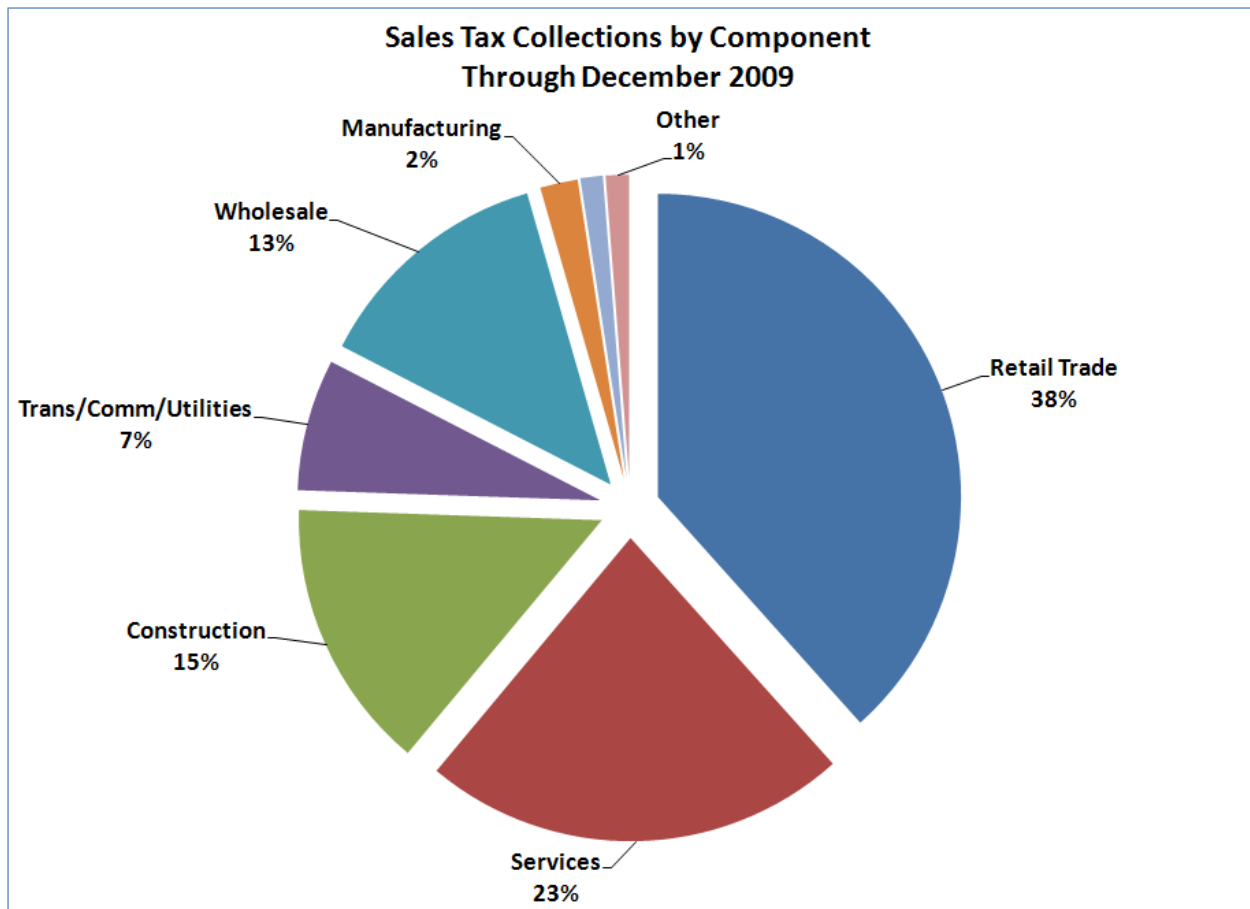
Actual sales tax proceeds through December 2009 total

\$1,648,902, which is \$176,802 or 9.7% below the budget estimate (\$1,825,704). 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		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	131,981	(8,478)	-6.0%
November	128,789	125,128	134,084	143,383	115,908	(27,475)	-19.2%
December	187,735	157,476	206,318	195,911	225,494	29,583	15.1%
Total	\$ 1,704,801	\$ 1,756,581	\$ 1,712,184	\$ 1,825,704	\$ 1,648,902	\$ (176,802)	-9.7%

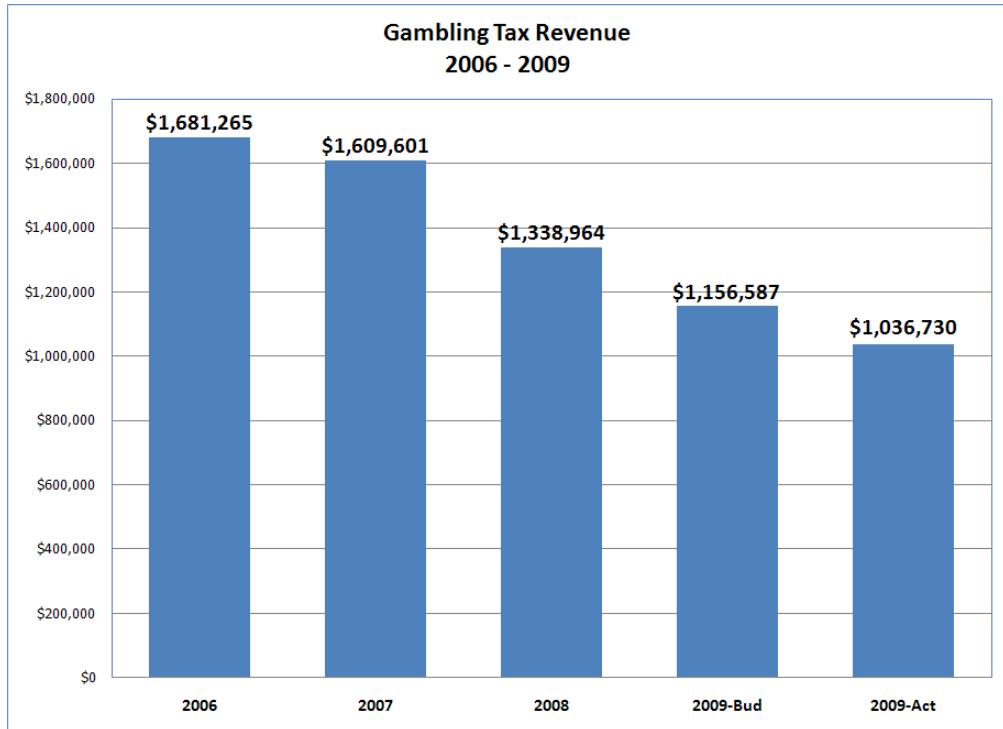
Compared to 2008 (\$1,712,184), sales tax revenues have decreased \$63,282 or 3.8%. Retail Trade activity decreased \$46,369 or 8.1%, Services decreased \$7,281 or 2.3% and Construction decreased \$4,012 or 2.0%. However, Transportation/Communications/Utilities activity increased \$13,086 or 15.6% and Wholesale increased \$4,579 or 2.6%.

Sales Tax Component	2006	2007	2008	2009		Change (bud vs. act)	
				Budget	Actual	\$	%
<i>Retail Sales Tax</i>							
Retail Trade	\$ 605,474	\$ 595,123	\$ 575,214	\$ 646,052	\$ 528,845	\$ (117,207)	-18.1%
Services	275,156	267,429	320,235	304,731	312,954	8,223	2.7%
Construction	185,129	214,594	203,446	217,045	199,434	(17,611)	-8.1%
Transp/Comm/Utilities	97,981	125,150	83,766	126,265	96,852	(29,413)	-23.3%
Wholesale	171,875	164,528	174,311	164,082	178,890	14,808	9.0%
Manufacturing	28,336	30,793	28,467	30,962	27,805	(3,157)	-10.2%
Public Services	1,389	901	123	8,885	16,498	7,613	n/a
Other	18,994	22,149	20,828	21,682	17,163	(4,519)	-20.8%
Total Retail Sales Tax	\$ 1,384,334	\$ 1,420,667	\$ 1,406,390	\$ 1,519,705	\$ 1,378,441	\$ (141,264)	-9.3%
<i>Criminal Justice Sales Tax</i>	320,467	335,914	305,794	306,000	270,461	(35,539)	-11.6%
Total Sales Tax	\$ 1,704,801	\$ 1,756,581	\$ 1,712,184	\$ 1,825,705	\$ 1,648,902	\$ (176,803)	-9.7%



Gambling Tax

The following graph summarizes gambling tax revenue collections for 2006 through 2009. Through December 2009, gambling tax collections totaled \$1,036,730, which is \$119,857, or 10.4% below the control budget estimate (\$1,156,587) and \$469,857 or 31.2% below the revised budget estimate (\$1,506,587).



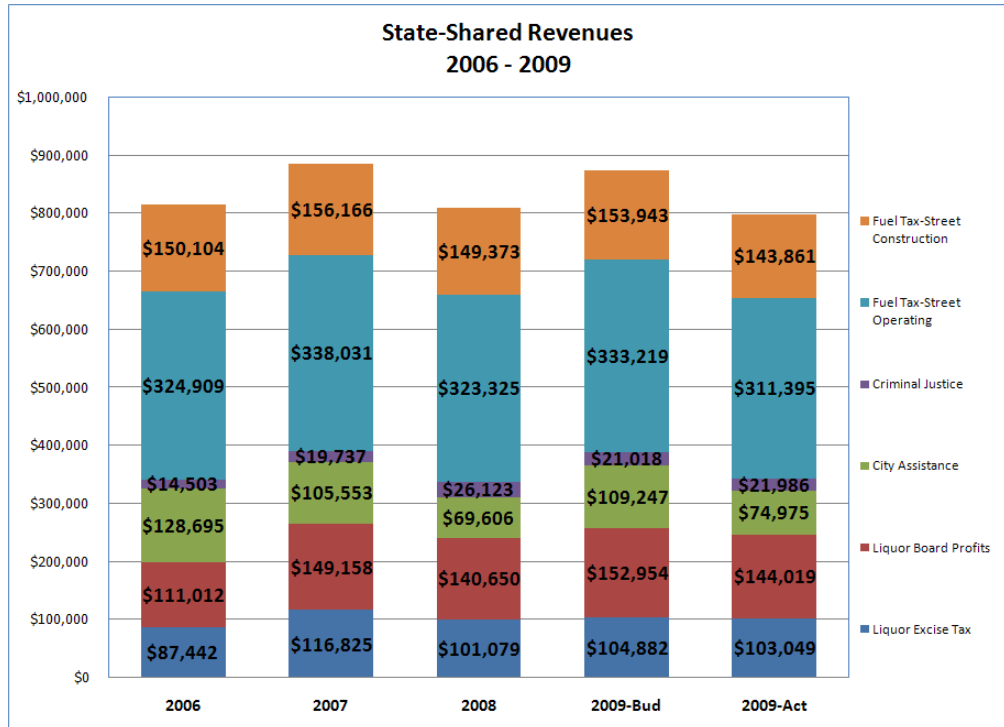
Compared to 2008 activity (\$1,338,964), gambling tax collections have decreased \$302,234, or 22.6%. The control budget estimated gambling tax collections would be \$350,000 per year lower than the adopted budget (\$1,506,587) that was projected as part of the adopted 2009-2010 biennial budget in the 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 in the near future.

Gambling Taxes	2006	2007	2008	2009		Change (bud vs. act)	
				Budget	Actual	\$	%
<i>Gambling Type</i>							
Punchboard & Pull tabs (n	\$ 77,177	\$ 93,129	\$ 80,264	\$ 100,000	\$ 58,546	\$ (41,454)	-41.5%
Punchboard & Pull tabs (cc	151,890	112,222	95,558	100,000	104,381	4,381	4.4%
Bingo & Raffles	56,907	37,750	25,569	30,000	24,630	(5,370)	-17.9%
Social Card Games	1,395,290	1,366,499	1,137,574	926,587	849,173	(77,414)	-8.4%
Total Gambling Type	\$ 1,681,265	\$ 1,609,601	\$ 1,338,964	\$ 1,156,587	\$ 1,036,730	\$ (119,857)	-10.4%
<i>Gambling Business</i>							
Crazy Moose Casino	\$ 506,751	\$ 581,554	\$ 533,919	\$ 544,000	\$ 510,738	\$ (33,262)	-6.1%
Red Dragon Casino	501,167	533,849	439,361	413,000	365,520	(47,480)	-11.5%
Silver Dollar Casino	422,849	293,883	188,733	-	-	-	n/a
Seattle Junior Hockey	159,119	130,879	105,832	125,000	83,175	(41,825)	-33.5%
Other Restaurants, Pubs	91,379	69,436	71,119	74,587	77,297	2,710	3.6%
Total Gambling Business	\$ 1,681,265	\$ 1,609,601	\$ 1,338,964	\$ 1,156,587	\$ 1,036,730	\$ (119,857)	-10.4%

State-Shared Revenues

The following graph and table presents a comparison of State-Shared revenues received between 2006 and 2009. State-shared revenues totaled \$799,285 through December 2009, which is \$75,978, or 8.7% below the budget estimate (\$875,263). The decrease is attributable again to current economic conditions.



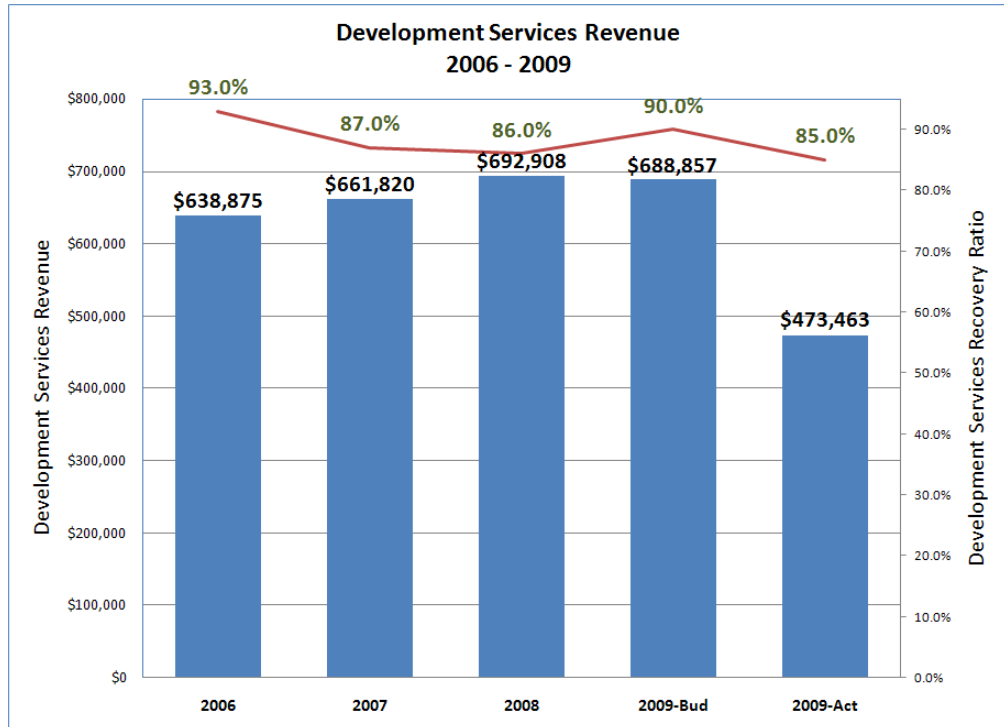
For example, City Assistance funds come from a portion of the State's real estate excise tax. The State's REET collections have been negatively impacted due to the current economic conditions – the result is less City Assistance funds.

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	\$ 87,442	\$ 116,825	\$ 101,079	\$ 104,882	\$ 103,049	\$ (1,833)	-1.7%
Liquor Board Profits	111,012	149,158	140,650	152,954	144,019	(8,935)	-5.8%
City Assistance	128,695	105,553	69,606	109,247	74,975	(34,272)	-31.4%
Criminal Justice	14,503	19,737	26,123	21,018	21,986	968	4.6%
Total General Fund	\$ 341,652	\$ 391,273	\$ 337,458	\$ 388,101	\$ 344,029	\$ (44,072)	-11.4%
Street Operating Fund							
Fuel Tax-Street Operating	324,909	338,031	323,325	333,219	311,395	(21,824)	-6.5%
Total Street Operating Fund	\$ 324,909	\$ 338,031	\$ 323,325	\$ 333,219	\$ 311,395	\$ (21,824)	-6.5%
Street Construction Fund							
Fuel Tax-Street Construction	150,104	156,166	149,373	153,943	143,861	(10,082)	-6.5%
Total Street Construction Fund	\$ 150,104	\$ 156,166	\$ 149,373	\$ 153,943	\$ 143,861	\$ (10,082)	-6.5%
Total State-Shared Revenue	\$ 816,665	\$ 885,470	\$ 810,156	\$ 875,263	\$ 799,285	\$ (75,978)	-8.7%

Development Services Fees

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



\$473,463, which is \$215,394 or 31.3% below the budget estimate (\$688,857). Compared with 2008 activity (\$692,908), development services fee revenue has decreased \$219,445 or 31.7%.

Development Services Source	2006	2007	2008	2009		Change (bud vs. act)	
				Budget	Actual	\$	%
Building Permits	\$ 262,929	\$ 244,627	\$ 162,412	\$ 261,562	\$ 188,328	\$ (73,234)	-28.0%
Engineering Fees	210,208	136,077	115,574	193,148	116,968	(76,180)	-39.4%
Plan Check/Zoning Fees	165,738	281,116	414,922	234,147	168,167	(65,980)	-28.2%
Total Development Services	\$ 638,875	\$ 661,820	\$ 692,908	\$ 688,857	\$ 473,463	\$ (215,394)	-31.3%

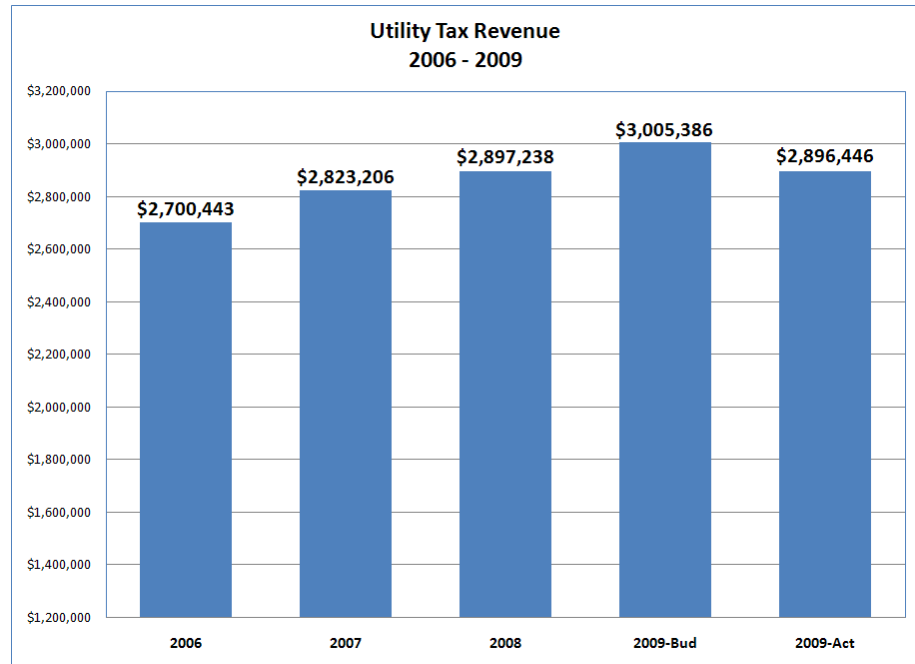
While we have seen a slowdown in development activity (and the revenue that comes with it), our development services program is offsetting the some of the revenue downturn with expenditure savings. The Community and Economic Development Department operating expenditures are \$217,692 or 20.8% below the estimated control budget. This is further reflected by a recovery ratio of 85%.

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 over 45 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

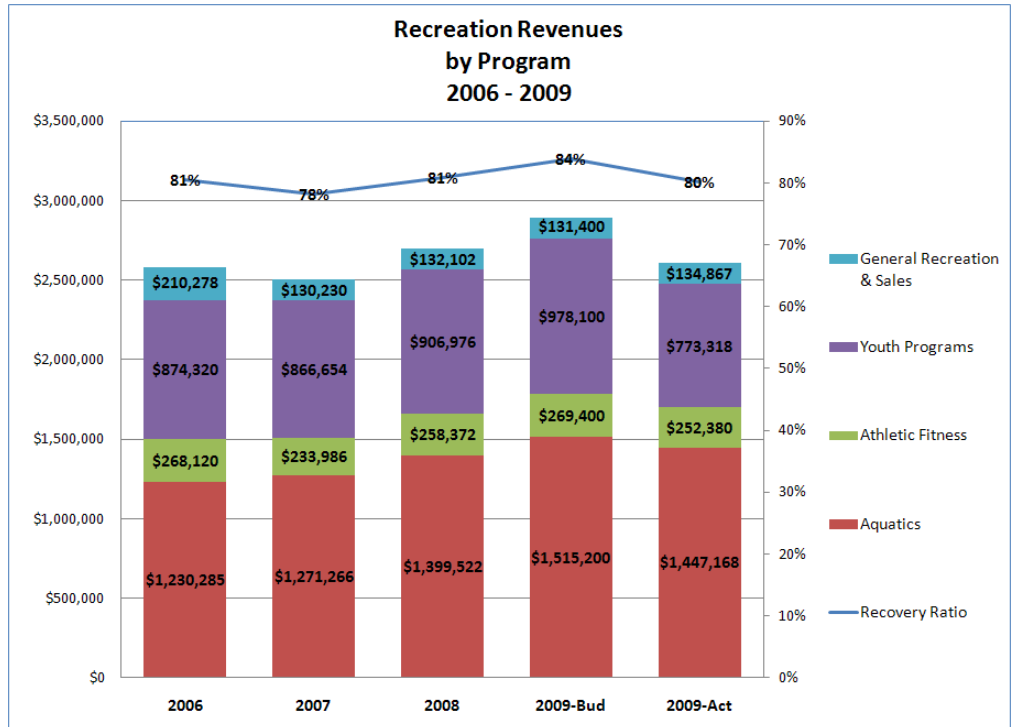
The following graph and table summarize utility tax revenue collections for 2006 through 2009. Through December 2009, utility tax collections totaled \$2,896,446, which is \$108,940, or 3.6% below the budget estimate (\$3,005,386). Compared to 2008 activity (\$2,897,238), utility tax collections relatively flat.



Utility Tax Source	2006	2007	2008	2009		Change (bud vs. act)	
				Budget	Actual	\$	%
Gas	\$ 260,768	\$ 296,667	\$ 288,312	\$ 308,534	\$ 302,201	\$ (6,333)	-2.1%
Solid Waste	209,074	201,474	249,033	209,533	251,974	42,441	20.3%
Telephone	839,932	863,848	839,532	898,402	796,431	(101,971)	-11.4%
Electricity	644,955	671,094	680,818	697,938	689,114	(8,824)	-1.3%
Cable	178,069	197,128	206,072	205,013	193,938	(11,075)	-5.4%
City Utilities	567,645	592,995	633,471	685,966	662,788	(23,178)	-3.4%
Total Utility Tax Revenues	\$ 2,700,443	\$ 2,823,206	\$ 2,897,238	\$ 3,005,386	\$ 2,896,446	\$ (108,940)	-3.6%

Recreation Program

The following graph and table summarize recreation activity for 2006 through 2009. Through December 2009, recreation fee collections totaled \$2,607,733, which is \$286,367, or 9.9% below the budget estimate (\$2,894,100). Compared to 2008 activity (\$2,696,972),



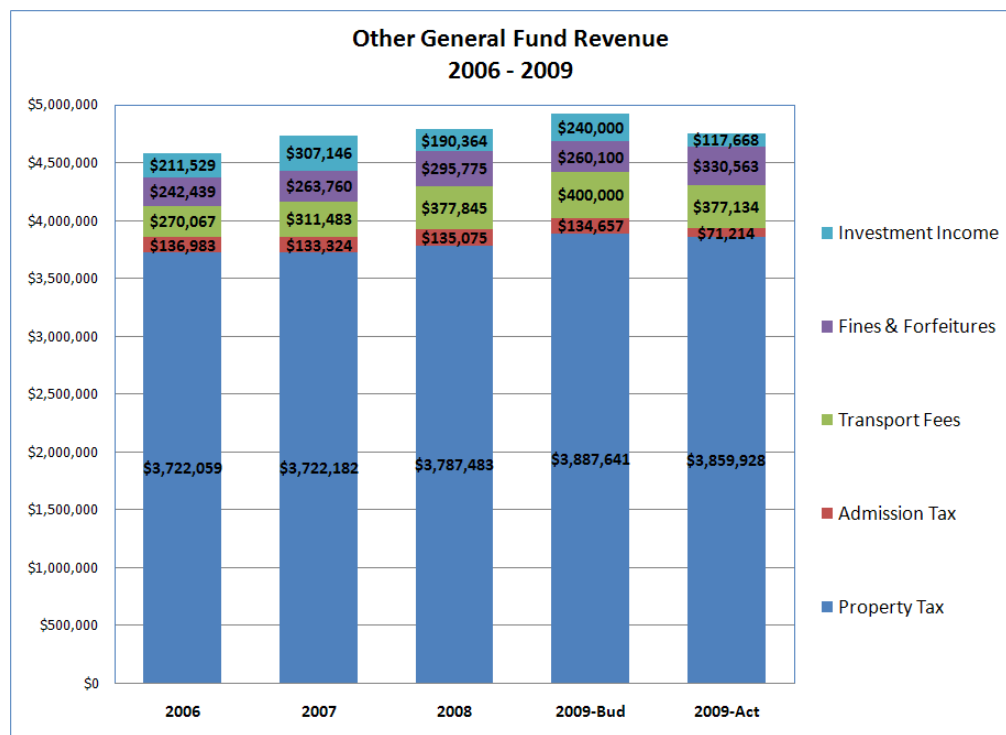
recreation fee collections have slowed by \$89,239, or 3.3%. This lower than expected recreation revenue collections is primarily attributable to the economic slowdown (e.g., youth programs, particularly child care services) and the closure of the pool for two plus weeks work on the liner earlier this year. However, the slowdown in revenue collections has been offset some with program expenditure savings, which are under the control budget estimate by \$192,851 or 5.6%. Compared to 2008, recreation program costs have decreased by \$77,367 or 2.3%, reflecting again the financial prudence being practiced by the Recreation Department. The program's cost recovery ratio is consistent with previous years at 80%.

Recreation Program Source & Uses	2006	2007	2008	2009		Change (bud vs. act)	
				Budget	Actual	\$	%
<i>Recreation Fees</i>							
Aquatics	\$ 1,230,285	\$ 1,271,266	\$ 1,399,522	\$ 1,515,200	\$ 1,447,168	\$ (68,032)	-4.5%
Athletic Fitness	268,120	233,986	258,372	269,400	252,380	(17,020)	-6.3%
Youth Programs	874,320	866,654	906,976	978,100	773,318	(204,782)	-20.9%
General Recreation & Sales	210,278	130,230	132,102	131,400	134,867	3,467	2.6%
Program Fees	\$ 2,583,003	\$ 2,502,136	\$ 2,696,972	\$ 2,894,100	\$ 2,607,733	\$ (286,367)	-9.9%
<i>Recreation Program</i>							
Aquatics	\$ 1,537,047	\$ 1,559,745	\$ 1,574,122	\$ 1,556,305	\$ 1,472,197	\$ (84,108)	-5.4%
Athletic Fitness	320,870	316,939	371,293	352,805	285,527	(67,278)	-19.1%
Youth Programs	1,126,510	1,115,016	1,180,220	1,335,150	1,290,962	(44,188)	-3.3%
General Recreation	39,015	25,353	22,624	19,482	22,205	2,723	14.0%
Debt Service	185,000	185,000	185,000	185,000	185,000	-	0.0%
Program Costs	\$ 3,208,442	\$ 3,202,053	\$ 3,333,259	\$ 3,448,742	\$ 3,255,891	\$ (192,851)	-5.6%
General Fund Subsidy	\$ (625,439)	\$ (699,917)	\$ (636,287)	\$ (554,642)	\$ (648,158)	\$ (93,516)	16.9%
Cost Recovery Ratio	81%	78%	81%	84%	80%	-3.8%	-4.6%

Other General Fund Revenue

- Property tax revenues were slightly below budget, coming in at 99.3% of the revised budget. The difference between the budget and what was actually received in 2009 reflects primarily a lag in collection of property taxes.
- Admission taxes total \$71,214 for 2009, which is \$63,443 or 47.1% below the adopted budget (\$134,957) 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 below budgetary estimates (\$400,000)



by \$22,866 or 5.7%.

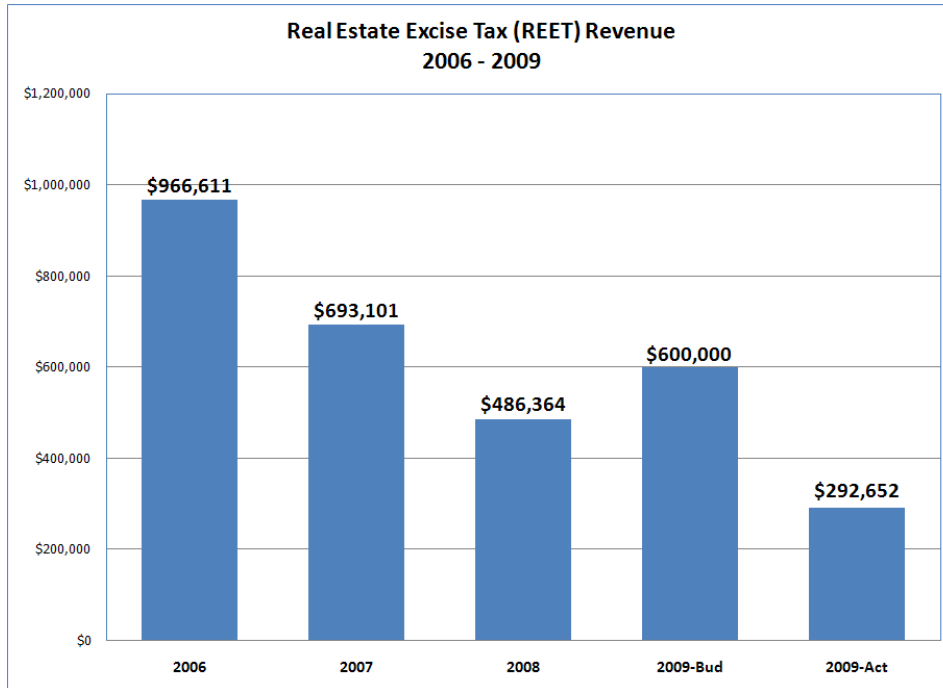
- Fines and forfeitures revenues, which are comprised primarily of traffic infractions and criminal citations, are above budgetary estimates (\$260,100) by \$70,463 or 27.1%.
- General Fund investment revenues total \$117,668, which is \$122,332 or 51.0% below the budget estimate (\$240,000). However, 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. Budget appropriations not expended in 2009 will carry over to 2010.

Sources & Uses	2006	2007	2008	2009		Change (bud vs. act)	
				Budget		\$	%
				Annual	Actual		
Capital Improvement Funds							
Beginning Fund Balances	\$ 3,575,170	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 5,623,137	\$ -	0.0%
Operating Revenues							
Real Estate Excise Tax	966,611	693,101	486,364	600,000	292,652	(307,348)	-51.2%
Motor Vehicle Fuel Tax	150,104	156,166	149,373	153,943	143,861	(10,082)	-6.5%
Cable PEG Fees	16,796	16,988	16,916	17,000	21,485	4,485	26.4%
Transportation Impact Fees	-	-	2,334	20,000	-	(20,000)	n/a
Park Impact Fees	-	-	4,224	170,000	2,026	(167,974)	n/a
Investment Interest/Other	165,996	282,880	257,504	157,820	150,613	(7,207)	-4.6%
Subtotal Operating Revenue	1,299,507	1,149,135	916,715	1,118,763	610,637	(508,126)	-45.4%
Other Financing Sources							
Transfer In: General Fund	741,756	2,126,000	356,000	500,000	500,000	-	0.0%
Transfer In: Street Operating Fund	419,407	-	-	-	-	-	n/a
Transfer In: REET Fund	155,000	1,775,589	228,000	564,373	260,865	(303,508)	-53.8%
Transfer In: Strategic Reserve Fund	-	-	-	300,000	300,000	-	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	380,000	(295,144)	n/a
Grants	398,257	172,558	118,853	1,245,995	838,379	(407,616)	n/a
Subtotal Other Financing Sources	1,726,142	4,873,855	702,853	3,285,512	2,279,244	(1,006,268)	-30.6%
Total Capital Improvement Funds	\$ 6,600,819	\$10,620,305	\$ 8,361,147	\$10,027,412	\$ 8,513,017	(1,514,395)	-15.1%
Capital Program							
Overlay Program	\$ 881,419	\$ 483,158	\$ 474,248	\$ 2,088,321	\$ 999,768	(1,088,553)	-52.1%
Chip & Slurry Seal Program	211,091	155,610	236,245	194,200	191,901	(2,299)	n/a
ADA Sidewalk Program	-	-	-	102,000	36,773	(65,227)	n/a
Traffic Calming Program	1,695	5,995	15,152	25,848	-	(25,848)	n/a
Bicycle Route Program	-	-	-	41,000	-	(41,000)	n/a
Sidewalk Program	48,175	294,480	55,067	267,043	55,611	(211,432)	n/a
Transportation Plan	-	75,057	-	-	-	-	n/a
Traffic & Signal Control Program	182,470	-	26,072	849,091	140,367	(708,724)	-83.5%
Interurban Trail Link	39	4,681	150,256	21,444	5,800	(15,644)	n/a
Street Reconstruction	8,145	13,659	16,960	1,899,676	210,784	(1,688,892)	-88.9%
Engineering Services	87,000	184,455	238,244	179,303	341,589	162,286	90.5%
Capital-Artwork	-	-	7,500	17,500	17,500	-	0.0%
Capital-Information Technology	65,856	144,111	166,196	372,542	174,445	(198,097)	-53.2%
Capital-Community & Economic Develop	-	-	123,940	14,531	-	(14,531)	n/a
Capital-Property Management	54,870	150,881	481,385	382,860	225,504	(157,356)	-41.1%
Capital-Temporary City Hall	-	-	-	675,144	399,982	(275,162)	-40.8%
Capital-Parks	-	114,128	280,419	194,400	61,757	(132,643)	-68.2%
Capital-Recreation	29,182	13,719	24,870	25,900	21,818	(4,082)	-15.8%
Capital-Police	81,226	-	71,206	122,430	60,666	(61,764)	-50.4%
Capital-Future Investments	-	320,953	-	-	-	-	n/a
Subtotal Other Financing Uses	1,651,168	1,960,887	2,367,760	7,473,233	2,944,265	(4,528,968)	-60.6%
Transfer Out (Debt Service & CIP)	352,336	1,917,839	370,250	1,225,986	922,478	(303,508)	-24.8%
Total Capital Improvement Funds	\$ 2,003,504	\$ 3,878,726	\$ 2,738,010	\$ 8,699,219	\$ 3,866,743	(4,832,476)	-55.6%
Fund Balances							
Designated/Reserved:							
P.E.G. (Cable Fees)	\$ 32,309	\$ 37,476	\$ 47,886	\$ 31,392	\$ 63,926	4,273	7.2%
Transportation Impact Fees	-	-	2,334	31,000	2,334	-	0.0%
Park Impact Fees	56,213	56,213	10,110	174,224	6,250	(3,860)	-38.2%
Capital Improvements	4,508,793	6,647,890	5,562,807	1,091,577	4,573,764	3,317,668	264.1%
Total Ending Fund Balances	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 1,328,193	\$ 4,646,274	\$3,318,081	249.8%

Real Estate Excise Taxes



The following graph and table illustrate collection history for the first and second 1/4 percent real estate excise taxes (REET). The table and graph both reflect the cyclical variation in this revenue source. Through December 2009, REET revenues (\$292,652) were under budgetary estimates (\$600,000) by \$307,348 or 51.2%. Compared with 2008 activity (\$486,364), REET

revenues have decreased \$193,712 or 39.8%. This decline is reflective of the slowing real estate market.

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	21,299	(33,229)	-60.9%
November	51,404	43,308	12,471	44,372	28,732	(15,640)	-35.2%
December	47,385	27,944	15,415	41,154	14,519	(26,635)	-64.7%
Total REET	\$ 966,611	\$ 693,101	\$ 486,364	\$ 600,000	\$ 292,652	\$ (307,348)	-51.2%

Our REET revenue estimate for 2009 totals \$600,000 and is allocated specifically for capital projects. The good news is that even though we did 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 and 2010 that was not anticipated when the budget was prepared in late 2008.

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 \$3.9 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

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

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)
- \$1,200,000 - 2010 Water Resources Development Act (WRDA) funds in support of future improvements in the Lake Ballinger/McAler Creek Watershed Basin as outlined in the recently adopted Strategic Action Plan. This funding source is a multi-jurisdictional request from the agencies (cities of Edmonds, Lake Forest Park, Lynnwood, Mountlake Terrace & Shoreline and Snohomish County) currently partnering in the Lake Ballinger/McAler Creek Watershed Basin Forum.

Storm Water Detention & Water Quality Improvements in support of Civic Campus and Lake Ballinger/McAler Creek Watershed Basin

- \$500,000 – federal funding to construct a new storm water detention facility that will address water quality in the Lake Ballinger/McAler Creek watershed basin and spur economic development in our downtown core

Lakeview Trail

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

Emergency Response Interoperability

- \$500,000 – federal funding to replace and upgrade our integrated regional 9-1-1 system along with a series of modern law enforcement tools needed to meet public safety obligations in our community.

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
- \$750,000 – federal funding for sidewalks along 214th St SW between 40th and 44th connecting to Mountlake Terrace High School and 54th Avenue between 220th and 223rd connecting to Mountlake Terrace Elementary School

Key Capital & Construction Investment Projects

The City continues to implement its \$66 million capital improvement plan for the years 2006 through 2014 that includes important improvements to our streets, parks, sidewalks, facilities, utilities and open space areas. The following are some of the City's key projects for 2009 and 2010.

Projects recently completed...

1. 52nd/53rd Avenues Water Main Construction: This project, which was recently completed, 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.
2. 52nd Avenue W Reconstruction Project (212th to 220th): This project included 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.
3. 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.
4. 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.
5. 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.

Projects underway...

6. 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 will begin later this month.
7. 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 this summer.
8. 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.
9. 222nd Street Sidewalk Connection at Jack Long Park: This project will complete the sidewalk on the north side of 222nd Street SW between 58th and 60th Avenues W. The project includes sidewalk ramps and drainage improvements for the intersection of 222nd and 60th. Where the new sidewalk passes the frontage of Jack Long Park, a stairway will be constructed up a steep grassy slope to the park's south entrance. Construction is planned to begin in late spring.
10. East Side Water System Water Improvements: A new 12" diameter main will be installed in 228th Street SW between 39th and 44th, in Cedar Way from 228th to entrance to the 23400 block, and in 222nd Street between 39th and 44th to increase the available fire flow in the area. Construction beginning in summer and fall. A street overlay will follow in 2011.
11. Town Center Water System Improvements: A new 12" diameter main will be installed in 55th Avenue W from 230th to the 23700 block, and in 230th and 234th Streets SW from 55th to 56th. A new 8" diameter main will be installed in 230th Street SW from 53rd to 56th. This project is funded up to 55% with a US Environmental Protection Agency (EPA) grant. Considering the current favorable bidding climate, contract will include additional water system improvements so that all of the EPA grant can be used. This additional work will be optional depending on the bids. The optional improvements are a new 16" diameter main in 234th from 56th to 58th, and a new 12" main in 56th from 228th to 230th. Construction is anticipated to beginning in late summer.

12. Hall Creek Culvert Removal and Sewer Replacement Project: This project is anticipated to be very complex due to permitting requirements and the varied components of the project which will include water main relocation, replacement of a sewer main, and removal of the culverts, stream bank restoration and installation of a pedestrian bridge. A Request for Proposal (RFP) has been developed for the selection an engineering firm to assist with design, permitting and construction document preparation for the project. With design scheduled to begin this spring, project work is anticipated to begin sometime during in the winter.

Projects that will begin later this year...

13. 2010 Street Chip Seal Program: The streets to be chip sealed are those within the area bounded by 216th, 220th, 48th, and 56th, and the area bounded by 220th, 230th, 58th and Interstate 5. In total, almost 4 centerline miles of City streets will receive this pavement preservation treatment. Construction is scheduled for mid-summer.
14. 2010 Street Overlay Program: 212th between 44th and 52nd will also be repaved as a joint project with the Cities of Lynnwood and Mountlake Terrace. Besides an asphalt overlay, the work includes new sidewalk ramps and new pavement markings. Construction is scheduled for mid-summer.

15. Town Center

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

Utility Funds

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

- Storm Water: Storm Water operating revenues are under budgetary estimates by \$16,393 or 1.4% through year-end 2009; however this is offset with operating expenditure savings, which are under budgetary estimates by \$70,281 or 6.3% due primarily to lower than anticipated maintenance costs.
- Water: Water operating revenues exceeded budgetary estimates by \$4,843 or 0.2% through year end 2009 while operating expenditures were below budgetary estimates by \$91,185 or 3.6%.
- Sewer: Sewer operating revenues are under budgetary estimates by \$212,796 or 6.6% through year end 2009; however this is more than offset with cost savings as operating expenditures are under budgetary estimates by \$243,979 or 8.6% due primarily to lower than anticipated maintenance costs.

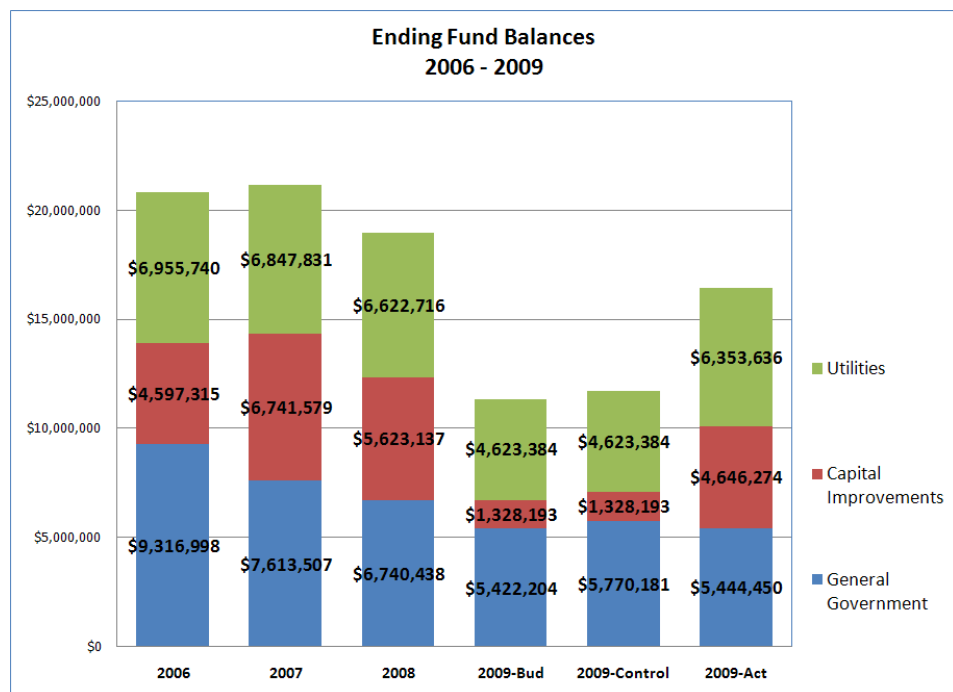
Sources & Uses	2006	2007	2008	2009		Change (bud vs. act)	
				Budget	Actual	\$	%
Utility Funds							
Beginning Fund Balances	\$7,286,594	\$6,847,767	\$6,936,129	\$6,622,716	\$6,622,716	\$ -	0.0%
Operating Revenues							
Storm Water	917,421	931,680	1,018,450	1,159,089	1,142,696	(16,393)	-1.4%
Water	2,651,866	2,529,983	2,755,605	2,794,204	2,799,047	4,843	0.2%
Sewer	2,889,815	2,812,790	3,056,971	3,241,029	3,028,233	(212,796)	-6.6%
Subtotal Operating Revenues	6,459,102	6,274,453	6,831,026	7,194,322	6,969,976	(224,346)	-3.1%
Operating Expenditures							
Storm Water	847,183	906,074	909,589	1,119,863	1,049,582	(70,281)	-6.3%
Water	2,327,798	2,309,016	2,273,928	2,537,923	2,446,738	(91,185)	-3.6%
Sewer	2,317,565	2,445,042	2,606,838	2,841,894	2,597,915	(243,979)	-8.6%
Debt Service	105,010	105,687	88,882	120,900	120,860	(40)	n/a
Subtotal Operating Expenditures	5,597,556	5,765,819	5,879,237	6,620,580	6,215,095	(405,485)	-6.1%
Operating Surplus (Deficit)	861,546	508,634	951,789	573,742	754,881	181,139	31.6%
Other Financing Sources							
Grants and PWTFL	-	291,200	162,622	477,000	476,152	(848)	-0.2%
Loan Proceeds	-	-	-	2,500,000	-	(2,500,000)	n/a
Transfer from Utility Funds	1,717,093	3,301,158	4,852,924	120,900	120,860	(40)	0.0%
Subtotal Other Financing Uses	1,717,093	3,592,358	5,015,546	3,097,900	597,012	(2,500,888)	-80.7%
Other Financing Uses							
Construction Projects	1,300,197	904,846	1,516,706	5,670,974	1,620,973	(4,050,001)	-71.4%
Transfer to Utility Funds	1,609,296	3,196,082	4,764,042	-	-	-	n/a
Subtotal Other Financing Uses	2,909,493	4,100,928	6,280,748	5,670,974	1,620,973	(4,050,001)	-71.4%
Fund Balances							
Reserves (15% of Oper Exp)	-	-	913,941	974,949	964,409	(10,540)	-1.1%
Designated/Reserved:							
Storm Water	1,704,626	1,514,300	1,098,414	2,122,972	1,052,415	(1,070,557)	-50.4%
Water	2,951,524	3,260,139	2,576,703	292,473	2,350,158	2,057,685	703.5%
Sewer	2,148,133	2,073,392	2,033,658	1,232,990	1,986,654	753,664	61.1%
Debt Service	151,457	-	-	-	-	-	n/a
Undesignated/Unreserved	-	-	-	-	-	-	n/a
Total Ending Fund Balances	\$6,955,740	\$6,847,831	\$6,622,716	\$4,623,384	\$6,353,636	\$1,730,252	37.4%

Ending Fund Balances/Reserves

The following graph and table illustrates the City's ending fund balances between 2006 and 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 (cntrl bud vs. act)	
				Budget	Control	Actual	\$	%
<i>General Government</i>								
Reserved/Designated								
Reserves (5% of GF Oper Exp)	\$ 694,768	\$ 672,383	\$ 729,525	\$ 728,201	\$ 701,124	\$ 681,831	\$ (19,293)	-2.8%
Strategic Reserve (5% of GF Oper Exp)	916,507	959,753	995,309	735,309	735,309	720,800	(14,509)	-2.0%
Reserved/Designated								
Encumbrances	402,437	179,672	185,553	454,782	454,782	532,790	78,008	17.2%
Equipment Replacement & Reserve	2,294,889	2,307,593	2,345,407	1,441,331	1,441,331	1,584,367	143,036	9.9%
Hotel/Motel-Tourism	35,922	32,907	34,979	27,353	27,353	30,178	2,825	10.3%
Solid Waste-Billing Exemptions	58,359	61,628	40,531	27,605	27,605	27,686	81	0.3%
Accumulated Leave Reserve	761,751	283,723	234,381	245,981	245,981	241,340	(4,641)	-1.9%
Subtotal Reserved/Designated	5,164,633	4,497,659	4,565,685	3,660,562	3,633,485	3,818,992	185,507	5.1%
Contingency (2% of GF Oper Exp)	-	-	-	291,280	125,348	-	(125,348)	-100.0%
Undesignated/Unreserved (one-time)	4,152,365	3,115,848	2,174,753	1,470,362	2,011,348	1,625,458	(385,890)	-19.2%
Total General Government	\$ 9,316,998	\$ 7,613,507	\$ 6,740,438	\$ 5,422,204	\$ 5,770,181	\$ 5,444,450	\$ (325,731)	-5.6%
<i>Capital Improvement</i>								
Reserved/Designated								
P.E.G. (Cable Fees)	32,309	37,476	47,886	59,653	59,653	63,926	4,273	7.2%
Transportation Impact Fees	-	-	2,334	2,334	2,334	2,334	-	0.0%
Park Impact Fees	56,213	56,213	10,110	10,110	10,110	6,250	(3,860)	-38.2%
Capital Improvements	4,508,793	6,647,890	5,562,807	1,256,096	1,256,096	4,573,764	3,317,668	264.1%
Total Capital Improvement	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 1,328,193	\$ 1,328,193	\$ 4,646,274	\$3,318,081	249.8%
<i>Utilities</i>								
Reserves (15% of Oper Exp)	-	-	913,941	974,949	974,949	964,409	(10,540)	-1.1%
Designated/Reserved:								
Storm Water	1,704,626	1,514,300	1,098,414	2,122,972	2,122,972	1,052,415	(1,070,557)	-50.4%
Water	2,951,524	3,260,139	2,576,703	292,473	292,473	2,350,158	2,057,685	703.5%
Sewer	2,148,133	2,073,392	2,033,658	1,232,990	1,232,990	1,986,654	753,664	61.1%
Debt Service	151,457	-	-	-	-	-	-	n/a
Total Utilities	\$ 6,955,740	\$ 6,847,831	\$ 6,622,716	\$ 4,623,384	\$ 4,623,384	\$ 6,353,636	\$1,730,252	37.4%
Total Ending Fund Balances	\$20,870,053	\$21,202,917	\$18,986,291	\$11,373,781	\$11,721,758	\$16,444,360	\$4,722,602	40.3%

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 exceeded both the control budget estimate and revised budget estimate, which is attributable to capital and utility construction funds set aside for projects that are expected to be completed in the near future.

Reserved/Designated Ending Fund Balances: The first component of ending fund balances, totaling \$5,444,450 at the end of 2009, are those moneys that have been earmarked for a strategic reserve fund (\$720,800), equipment replacement reserves (\$1,584,367), accumulated leave reserves (\$241,340), and General Fund reserves totaling 5% of operating expenditures (\$681,831). This reserve designation also include encumbrances from prior and current year (\$532,790), funds dedicated solely for tourism purposes (\$30,178), and solid waste billing exemptions (\$27,686).

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 (\$964,409) in the funds as well as utility funds reserved for construction projects (\$5,389,227). All Capital (\$4,646,274) and Utility Construction Fund balances (\$5,389,227) 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 2009, budgeted contingency reserves totaled \$291,280; however these funds were not allocated. The contingency reserve represent 2% of General Fund operating expenditures and are reserved within the General Fund to accommodate unexpected operational changes, legislative impacts, or other economic events affecting the City's operations that could not have been reasonably anticipated at the time the budget was prepared. The City Council determines how the contingency reserve is spent.

Unreserved/Undesignated Fund Balances: The unreserved/undesignated fund balance is the balance of net financial resources that are available for appropriation. This portion of funding is not legally restricted and is available to the Council for one-time appropriation. Unreserved/undesignated fund balances (\$1,625,458) in the General Fund through December 2009 are below the control budget estimate (\$2,011,348) by \$385,890 or 19.2% and were projected to carry forward as beginning fund balance into 2010. However, the balances are above the revised budget estimate (\$1,470,362) by \$155,096 or 10.5%. These funds, which are set aside for future one-time capital investments and other one-time projects between 2010 and 2014 are still consistent with the City's 6-year financial forecast and any projected shortfall will be made up through the continued implementation of action strategies and preventative measures, unanticipated grant revenue in 2010, and the favorable bidding environment for capital/construction projects resulting in a reduced contribution to Street Construction from this source.

Action Strategies and Preventative Measures Implemented

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

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

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

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

- As part of the mid-biennial budget process in late 2009, revenue estimates beginning in 2010 have been adjusted downward to reflect current economic conditions.
- All discretionary spending has been eliminated, incurring costs related to basic services only (e.g., employee compensation; mandated training & certifications; basic services such as park maintenance, public safety, code enforcement, code compliance, ROW maintenance, & street sweeping; and community outreach and information such as newsletter, website, news releases).
- All other discretionary expenditures (i.e. supplies, travel, training, overtime, equipment, temporary help, COLAs for department directors, etc.) are on hold indefinitely.
- All other costs must be approved in advance after review by Finance Director and City Manager.
- All overtime hours must be reviewed and approved by the department director in advance.
- Fleet and equipment purchases are limited to essential vehicles and equipment. Non-essential purchases have been delayed until at least 2010.
- Non-essential information technology, recreation, and park improvements have also been delayed until at least 2010.
- All current and future positions that are vacated by attrition will not be filled with the exception of police patrol vacancies.
- A vacant maintenance position in our Street Division is being filled by employees from our Parks Division.
- The contract for City Attorney services has been reduced to 2002 level of service.
- The Community Specialist position funded from the General Fund has been reduced to half-time (remaining half-time hours will be charged to non-General Fund activities based on workload availability).
- The Civil Engineer II position assigned to review private development projects has been temporarily assigned to work part-time on capital utility projects. This helps alleviate the project load on our engineering staff, while at the same time enabling us to charge one-half of this employee's time to utilities rather than the General Fund.
- Civic Center Utilities and Maintenance budget 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 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 in 2009 and 2010.
- The 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.
- The Administrative Services Department has been providing financial services to Southwest Snohomish County Communications Agency (SNOCOM). This contract for services, which began on November 1, 2009 and will continue through at least December 31, 2010 will generate General Fund income equal to approximately one-half of the salary and benefits for a finance position during the term of the agreement. The Administrative Services Department is capable of assuming these tasks based upon the independent review conducted earlier this year that showed the department has the capacity to pick up the additional tasks.
- Lastly, the City previously streamlined the following services that has resulted in annual budgetary savings totaling \$1,550,000 dating back to 2005:
 - Contract for fire & EMS services (\$600,000 per year beginning in 2005)
 - Custodial services transitioned from in-house to contract (\$250,000 per year beginning in 2007)
 - Elimination of five management positions (\$400,000 per year beginning in 2006)
 - Fleet management best practices (\$300,000 per year beginning in 2009)

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

Other Options

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

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

Although the City has funds set aside for unanticipated events, my recommendation is to hold off on using these 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 since mid 2008, we will continue to evaluate revenues and expenditures on a regular basis and allocate resources in a manner that ensures first and foremost that no services to our residents will need to be reduced, eliminated or cut.

This approach coupled with the action strategies and preventative approaches outlined above will allow us to meet our financial objectives for 2010 and deals with the structural problem created by the continued deterioration of the economy and its negative impact on our operating revenues.

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

Attachments

- Attachment A -- Fourth Quarter 2009 Financial Report Detail
- Attachment B -- Municipal Court & Jail Services Expenditure Detail
- Attachment C -- Significant Development Activity through December 31, 2009
- Attachment D -- Town Center Investments