

Management's Discussion and Analysis

The management discussion and analysis section of the City of Mount Vernon's annual financial report provides a narrative overview of the City's financial activities for and financial position at the end of December 31, 2008. This information should be read in conjunction with the financial statements and notes to the financial statements that follow.

Financial Highlights

- Net assets, the amount by which total assets exceed total liabilities, equal \$228,398,392. A total of 87%, or \$198,060,546, of total net assets is invested in capital such as streets, land and buildings. Of the remaining net assets, 12%, or \$29,504,259, of total net assets is available to meet the government's ongoing activities and obligations, and 1%, or \$833,587, is restricted for debt service.
- The City of Mount Vernon's net assets increased by \$13,834,321 in 2008, representing a 6% increase over 2007 net assets. Capital assets net of current year depreciation in 2008 increased \$30,326,601, or 15%. Included in increases to capital assets for 2008 was \$9,957,083 of infrastructure contributed by developers for sewer expansions and storm water improvements.
- The Statement of Net Assets for the year ended December 31, 2008 includes a noncurrent liability for other postemployment benefit obligations of \$180,896. This is a result of the implementation of GASB Statement No. 45 in 2008.
- Governmental fund balances at year end were \$11,056,246, a \$3,851,958 or 26% decrease over the prior year. Of this amount, a total of \$10,911,026, or 99%, of the governmental fund balance is unreserved and available to fund ongoing activities with \$4,542,253 being earmarked for capital project activities.
- Unreserved fund balance in the General Fund was \$4,278,931, a decrease of \$2,061,212 from the prior year. The largest contributing factor for the 33% decrease in fund balance is due to general fund budgeted transfers to capital projects during 2008. The City has a policy to maintain a General Fund fund balance equal to two months of the annual budget, and the fund balance at December 31, 2007 was equal to approximately four months of the annual general fund budget.
- The City's total long-term debt increased by \$13,402,100 resulting primarily from loans issued to finance the wastewater treatment plant expansion and upgrade project.

Overview of the Financial Statements

The City's basic financial statements are presented in three parts: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Other supplementary information in addition to the basic financial statements is also contained in this report. This section of the management's discussion and analysis is intended to introduce and explain the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to give the reader a picture of the financial condition and activities of the City as a whole. This broad overview is similar to the financial reporting of private-sector businesses. The government-wide financial statements have separate columns for governmental activities and business-type activities. Governmental activities of the City include general government, security of persons and property (police and fire), physical environment, transportation, economic environment and culture & recreation. Property, sales, and utility taxes finance the majority of these functions. The

City's business-type activities are wastewater, health and sanitation and surfacewater. The City's business-type activities are self supporting through user fees and charges.

The **Statement of Net Assets** presents information on all of the City's assets and liabilities, highlighting the difference between the two as net assets. This statement is similar to the balance sheet of a private sector business.

The **Statement of Net Activities** presents both the gross and net cost of various activities, both governmental and business-type, which are provided by the City. The statement distinguishes revenue generated by specific functions from revenue provided by taxes and other sources not related to a specific function. The revenue generated by specific functions (charges for services, grants, and contributions) is compared to the expenses for those functions to show a net cost for each specific function.

Fund Financial Statements

The annual financial report includes fund financial statements in addition to the government-wide financial statements. Some funds are required to be established by State law and by bond covenants, while the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes or grants. The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

Governmental funds are used to account for most of the City's basic services, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a short-term view of the City's

general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Comparing the governmental fund statements with the government-wide statements can help the reader better understand the long term impact of the City's current year financing decisions. To assist in this comparison, reconciliations between the governmental fund statements and the government-wide financial statements are included with the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance.

The City of Mount Vernon maintains several individual governmental funds; however, only two City funds are categorized as major governmental funds, the General Fund and the Road Improvement Capital Project Funds. All other governmental funds are combined into a single column labeled *other governmental funds*.

The City maintains budgetary control over its operating funds through the adoption of an annual budget, which is adopted at the fund level and according to state law. A budgetary comparison statement is presented for the general fund as a basic financial statement.

Proprietary funds are used by the City to account for business-type activities. Business-type activities provide specific goods or services to a group of customers that are paid for by fees charged to those customers. There is a direct relationship between the fees paid and the services received.

The City of Mount Vernon has two types of proprietary funds; enterprise and internal service funds. Enterprise funds are used to account for goods and services provided to outside customers (citizens and businesses). Internal service funds are used to account for goods and services provided internally to various city departments.

Enterprise funds of the City are used to report the same functions presented as business-type activities in the government-wide statements with the fund statements providing more detail than is reported in the government-wide statements. The enterprise fund statements provide separate information for the City's wastewater utility, health and sanitation utility and the City's surfacewater utility.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various

functions. The City uses internal service funds to account for its fleet of vehicles and medical self-insurance.

Fiduciary funds account for assets held by the City in a trustee capacity for other governments, private organizations or individuals. Fiduciary funds are not included in the government-wide financial statements because the assets are not available to support the City of Mount Vernon's activities.

Government-Wide Statement

Statement of Net Assets

The following is a condensed version of the statement of net assets for 2008 compared to 2007.

Table 1
Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 20,575,061	\$ 23,376,964	\$ 14,289,285	\$ 13,372,384	\$ 34,864,346	\$ 36,749,348
Capital assets, net of accumulated depreciation	112,442,958	105,519,294	122,307,196	98,904,259	234,750,154	204,423,553
Total assets	133,018,019	128,896,258	136,596,481	112,276,643	269,614,500	241,172,901
Long-term liabilities	5,978,754	6,111,582	29,789,574	14,923,408	35,768,328	21,034,990
Other liabilities	3,040,066	3,208,279	2,407,714	2,365,561	5,447,780	5,573,840
Total liabilities	9,018,820	9,319,861	32,197,288	17,288,969	41,216,108	26,608,830
Net assets						
Invested in capital assets, net of related debt	106,304,907	98,624,294	91,755,639	82,511,751	198,060,546	181,136,045
Restricted	1,621,728	2,030,661	688,851	1,264,066	2,310,579	3,294,727
Unrestricted	16,072,564	18,921,442	11,954,703	11,211,857	28,027,267	30,133,299
Total net assets	\$ 123,999,199	\$ 119,576,397	\$ 104,399,193	\$ 94,987,674	\$ 228,398,392	\$ 214,564,071

The largest component of the City's net assets, 87% or \$198,060,546, is its investment in capital assets less any related outstanding debt issued to acquire those assets. These capital assets such as streets, bridges, buildings, land, sewer and storm water lines, and sewer treatment plant are used to provide services to the citizens and businesses of the City.

Net assets of the City's governmental activities increased 4% or \$4,422,802 in

2008 due to capital infrastructure projects, primarily transportation improvement projects. In addition, contributions from developers for transportation infrastructure totaled \$1,276,452 in 2008. These projects resulted in an increase to governmental investment in capital assets of 8%.

Net assets of the City's business type activities increased 10% or \$9,411,519 in 2008 with the majority of the increase, \$9,957,083, coming from infrastructure

contributed by developers for sewer and storm water improvements. Net assets of the business type activities can only be used to finance the continuing operations of wastewater, health and sanitation, and surfacewater.

Governmental activities accounted for 32% or \$4,422,802 of the total increase in the City's net assets of \$13,834,321. Key elements of the increase are as follows:

- \$6,923,664 of the governmental activities increase came from capital assets activity in 2008. The City had two major projects under construction in 2008; Riverside and College Way intersection improvements had capital costs of \$2,891,955 while the Hospital Access improvements had \$1,722,985 of capital costs in 2008. A third major project that is in the engineering and right-of-way phase had capital costs of \$2,120,721 in 2008. Revenues to fund capital assets are recorded as program or general revenues in the statement of activities. Capital grants and contributions which are included in program revenues funded a major portion of these projects. The associated construction expenses are not recorded as expenses in the year of construction but rather are allocated to expense over the lives of the assets through depreciation expense.
- Revenues that support ongoing operations were stable in a couple major categories with three notable decreases in other major categories: sales tax revenue decreased 9% compared to 2007, real estate excise tax decreased 29% as compared to 2007, and investment interest decreased 30% compared to 2007. The two major revenues that showed modest increases over the prior year include: an increase to property tax revenues resulting solely from new construction of 4% as compared to 2007, and utility tax revenues which increased 6% as compared to 2007.

- Property tax revenue increased \$277,635 or 4% compared to 2007. The City did not increase property taxes in 2008 representing the fourth year in a row that the City did not take the lawfully allowable 1% increase in property tax revenues. The entire increase in property tax is attributable to new construction being added to the tax rolls in 2008. \$160,233,553 of new construction assessed value was added to the tax rolls in 2008.
- Investment earnings for government activities decreased \$388,061 or 30% from 2007 due to unfavorable interest rates and due to the decrease in cash balances as compared to 2007.

Business-type activities of the City's utilities increased the City of Mount Vernon's net assets by \$9,411,519, or 68% of the total increase in net assets.

- Capital assets for business-type activities increased \$23,402,937, accounting for more than 100% of the increase in net assets for business-type activities. However, by comparison capital assets net of related debt increased \$9,243,888 compared to 2007. \$15,644,863 of loans were issued by the wastewater utility associated with the construction of the wastewater treatment plant expansion and upgrade project. Capital contributions from developers account for \$9,957,083 of the increase in capital assets net of accumulated depreciation for 2008.
- Operating revenues for the wastewater utility showed a modest increase of \$221,839, or 3% compared to 2007. Unrestricted net assets in the wastewater utility were 12% of total net assets, which reflects an increase of 25%, or \$1,796,054, compared to the prior year.
- The health and sanitation fund had a \$107,838, or 3%, decrease in operating revenues primarily due to the notable decrease in construction activity in 2008 as compared to 2007. Unrestricted net

assets which represent 72% of total net assets decreased 30%, or \$991,381, over 2007. This decrease is largely due to a land acquisition of \$850,000 in 2008 for future expansion of the City shop.

- The surfacewater utility showed a nominal increase in operating revenue of \$24,956, or 2%, compared to 2007. Unrestricted net assets represent 2% of total net assets, which reflects a 9%, or \$61,827, decrease in unrestricted net assets compared to 2007.
- No utility rate increases were implemented in 2008, although a sewer rate increase did go into effect January 2009. There was very little growth in utility customers in 2008 compared to 2007.
- Investment earnings for the business-type activities decreased \$151,268 or 30% compared to 2007 due to lower interest rates and due to a decrease in cash balance as compared to 2007.

Changes in Net Assets

The following schedule shows the revenues, expenses, and related changes in net assets in tabular form for the governmental activities separate from the business-type activities for 2008 and 2007.

Table 2
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues						
Charges for services	\$ 3,495,663	\$ 4,170,959	\$ 12,206,033	\$ 12,067,076	\$ 15,701,696	\$ 16,238,035
Operating grants and contributions	1,400,451	1,499,029	-	-	1,400,451	1,499,029
Capital grants and contributions	5,556,699	3,881,833	10,612,751	10,360,349	16,169,450	14,242,182
General revenues						
Property taxes	6,592,048	6,314,413	-	-	6,592,048	6,314,413
Sales taxes	5,395,214	5,927,202	-	-	5,395,214	5,927,202
Utility taxes	3,786,765	3,566,141	-	-	3,786,765	3,566,141
Real estate excise taxes	971,500	1,373,270	-	-	971,500	1,373,270
Other taxes	1,172,665	1,265,125	-	-	1,172,665	1,265,125
Investment interest	897,362	1,285,423	349,989	501,257	1,247,351	1,786,680
Miscellaneous	1,213	8,821	106,706	192,640	107,919	201,461
Total revenues	<u>29,269,580</u>	<u>29,292,216</u>	<u>23,275,479</u>	<u>23,121,322</u>	<u>52,545,059</u>	<u>52,413,538</u>
Expenses:						
General government	3,338,575	3,403,279	-	-	3,338,575	3,403,279
Security	12,543,697	10,926,482	-	-	12,543,697	10,926,482
Physical environment	1,479,510	1,315,160	-	-	1,479,510	1,315,160
Transportation	4,083,395	4,180,029	-	-	4,083,395	4,180,029
Economic environment	971,573	1,110,877	-	-	971,573	1,110,877
Culture and recreation	2,859,109	2,675,098	-	-	2,859,109	2,675,098
Interest on long-term debt	258,680	329,219	-	-	258,680	329,219
Wastewater	-	-	6,996,799	7,031,832	6,996,799	7,031,832
Health and sanitation	-	-	4,395,004	4,299,164	4,395,004	4,299,164
Surfacewater	-	-	2,190,157	1,984,817	2,190,157	1,984,817
Total expenses	<u>25,534,539</u>	<u>23,940,144</u>	<u>13,581,960</u>	<u>13,315,813</u>	<u>39,116,499</u>	<u>37,255,957</u>
Change in net assets before transfers	3,735,041	5,352,072	9,693,519	9,805,509	13,428,560	15,157,581
Transfers, internal	<u>282,000</u>	<u>272,325</u>	<u>(282,000)</u>	<u>(272,325)</u>	<u>-</u>	<u>-</u>
Change in net assets	4,017,041	5,624,397	9,411,519	9,533,184	13,428,560	15,157,581
Net Assets-beginning (restated)	119,982,158	113,952,000	94,987,674	85,454,490	214,969,832	199,406,490
Net Assets-ending	<u>\$ 123,999,199</u>	<u>\$ 119,576,397</u>	<u>\$ 104,399,193</u>	<u>\$ 94,987,674</u>	<u>\$ 228,398,392</u>	<u>\$ 214,564,071</u>

Financial Analysis of the City's Funds

The purpose of the City's **Governmental Funds** is to report on near term revenues/financial resources and expenditures. This information helps determine the City's financial requirements in the near future. In particular, fund balance is a good indicator of the City's resources available at the end of the year.

The governmental funds, as presented on the balance sheet in the basic financial statement section reported fund balance of \$11,056,246, which is 26% or \$3,851,958 lower than at the beginning of the year.

- The General Fund fund balance decreased \$2,061,212, or 33% compared to 2007. This decrease was due in large part to the budgeted operating transfers to capital projects in 2008 which totaled \$1,100,000. Other major reasons for the decline in fund balance include the decrease of sales tax revenue of \$531,988 in 2008 as compared to 2007, and the decrease of investment income of \$337,252 as compared to 2007.
- The Streets, Parks and Library Funds fund balance decreased as compared to 2007 for a combined decrease in fund balance of \$513,741 or 34% which is a direct result of operational activities drawing down available fund balance reserves for these funds.
- The Capital Project Funds including the major fund Road Improvement Funds and Real Estate Excise Tax Funds fund balance decreased \$1,211,978 or 21% reflecting a use of funds built up in prior years for street and other capital projects.
- Other governmental funds reflected minor increases and decreases in fund balance.
- The General Fund is the primary operating fund of the City through which all receipts and payments of ordinary

City operations are processed, unless they are required to be accounted for in another fund. Taxes are the major revenue source. The 2008 ending fund balance is 21% of the Fund's 2008 final budget. This meets and exceeds the City's goal to have a balance sufficient to cover daily financial needs. The City's goal is to have a fund balance equal to two months of operating budget, or 17% of the annual operating budget. A significant portion of fund balance was used in the 2008 General Fund budget for one-time expenditures while still meeting the City's goal of maintaining an appropriate fund balance level.

- 2008 expenditures in the General Fund were \$1,988,076 higher in 2008 as compared to 2007 due to the cost associated with cost of living increases, a 23% increase to medical premiums for our self-insured medical plan and one-time budgeted operating transfers to capital project funds.

The **Proprietary Funds** provide the same type of information found in the government-wide financial statements, but in more detail.

- Net assets in the Wastewater Utility increased \$5,751,466, or 9% compared to 2007, due primarily to capital contributions from developers which amounted to \$5,291,516 in 2008.
- \$15,644,863 of long-term debt was issued from the Wastewater Utility in 2008 to finance the wastewater treatment plant expansion and upgrade project which began in 2007.
- The Health and Sanitation Utility net assets decreased \$113,042, or 3% in 2008 compared to 2007.

Operating revenues declined 3% in 2008 as compared to 2007 due to the drop in construction activity, and the Utility did acquire property costing \$850,000 for future expansion of the City shop. Other than these two items there were no other noteworthy or significant financial changes that occurred in this Utility during 2008.

- Net assets in the Surfacewater Utility increased \$3,773,095, or 15% compared to 2007. The increase can be attributed to capital contributions from developers of \$4,665,567 in 2008.
- Other factors concerning the finances of the City's proprietary funds have previously been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The following is a brief review of the budgeting changes from the adopted original budget to the amended final budget.

- The General Fund budget was increased a total of \$95,073 during 2008. This increase was to account for unanticipated Police department grant and donation revenues and related operating and capital costs.
- There was only one budget transfer between departments within the General Fund which did not increase the overall budget for the General Fund. Transfers between departments in the General Fund were necessary to cover costs of union contract salary increases settled during the year and other minor modifications to budget line items. The non-departmental division of the General Fund was decreased \$60,925 to accommodate the budget transfers into other departments.

- The General Fund final budget for 2008 was \$20,770,504 of which \$19,705,971, or 95%, was expended for the year. It is typical that a small percentage of the General Fund budget remains unspent at year end. For the last five years (2004 through 2008) on average 95.6% of the annual General Fund budget is expended. City department managers typically do not spend 100% of all budget line items included in their annual budget. The most significant reason that the 2008 budget was 5% underspent as compared to budget is that some full time positions remained unfilled during the year. The best example of this is in the Police Department where five positions were unfilled for a portion or all of the 2008 year. One other reason the budget was underspent by 5% is that the Mayor requested a spending freeze where possible on supplies and equipment for the final month of the year, due to the downturn in the economy.

Capital Assets and Debt Administration

Capital Assets

The City implemented GASB Statement #34 with the 2003 financial statements. In the 2006 financial statements the City completed the phase-in associated with valuing the infrastructure component of the statement. Historically (prior to GASB Statement 34), a government's largest group of assets (e.g. roads, traffic signals, street lighting) have not been reported nor depreciated in the governmental financial statements. This statement requires that these assets be valued and reported within the Government column of the Government-Wide Statements. The City has elected to depreciate these assets over their estimated useful life.

As of December 31, 2008, the City of Mount Vernon's investment in capital assets for its governmental and business-type activities amounts to \$234,750,154 (net of accumulated depreciation). This investment

in capital assets includes land, buildings, improvements, machinery and equipment, art, construction in progress, infrastructure, utility systems, streets and bridges.

Capital asset increases attributed to the governmental activities totaled \$6,923,664, with business-type activities capital asset increases totaling \$23,402,937, and accounting for 77% of the total increase in capital assets for the City in 2008.

Major capital asset changes during 2008 included the following:

- In addition to smaller capital projects for governmental activities, three major projects were underway during 2008. Transportation construction projects included Riverside and College Way intersection improvements with capital costs of \$2,891,955 in 2008 and the Hospital Access improvements with capital costs of \$1,722,985 in 2008. The third major project is the Downtown and Waterfront flood control project that

is in the engineering and right-of-way phase and had capital costs of \$2,120,721 in 2008.

- Wastewater capital projects included the wastewater treatment plant expansion and upgrade project which resulted in 2008 costs of \$15,547,652, with inception to date project costs of \$31,723,004. Construction of this expansion project began in March 2007 and is expected to last two years with completion expected in June 2009. The total project budget is \$38,500,000 with the primary funding source being public works trust fund loans and a loan with the Department of Ecology state revolving loan program.
- Private development contributed \$5,291,516 to sewer infrastructure and \$4,665,567 to surfacewater infrastructure in 2008.
- Other City utility projects undertaken in 2008 incurred costs totaling \$1,733,251.

City of Mount Vernon's Capital Assets (net of depreciation)

Table 3
Capital Assets at Year-End
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 37,244,632	\$ 36,629,437	\$ 3,234,588	\$ 2,344,731	\$ 40,479,220	\$ 38,974,168
Buildings	10,040,267	8,630,912	7,853,812	7,650,093	17,894,079	16,281,005
Improvements other than buildings	3,751,508	2,351,230	78,592,664	69,313,366	82,344,172	71,664,596
Machinery and equipment	4,744,826	4,817,007	619,402	626,475	5,364,228	5,443,482
Construction in progress	4,675,675	2,410,896	32,006,730	18,969,594	36,682,405	21,380,490
Infrastructure	51,907,544	50,633,663	-	-	51,907,544	50,633,663
Art	78,506	46,149	-	-	78,506	46,149
Total	\$ 112,442,958	\$ 105,519,294	\$ 122,307,196	\$ 98,904,259	\$ 234,750,154	\$ 204,423,553

Additional information on the City of Mount Vernon's capital assets can be found in note 5 of this report.

Long-term Debt

At year-end, the City had \$36,689,608 in bonds and notes outstanding versus \$23,287,508 last year, reflecting a net increase of \$13,402,100.

Table 4
Outstanding Debt, at Year-End
General Obligation and Revenue Bonds

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ 4,130,000	\$ 4,540,000	\$ -	\$ -	\$ 4,130,000	\$ 4,540,000
Special assessment debt with governmental commitment	10,000	145,000	-	-	10,000	145,000
Revenue bonds and notes	1,998,051	2,210,000	30,551,557	16,392,508	32,549,608	18,602,508
Total	<u>\$ 6,138,051</u>	<u>\$ 6,895,000</u>	<u>\$ 30,551,557</u>	<u>\$ 16,392,508</u>	<u>\$ 36,689,608</u>	<u>\$ 23,287,508</u>

Additional information on the City of Mount Vernon's long-term debt activity can be found in note 10 of this report.

Governmental activities debt issued during 2008 included \$250,000 related to a property acquisition for the future expansion of the city shop facility, and \$22,037 for acquisition of a sculpture art piece.

The other debt issued in 2008 was related to the wastewater treatment plant expansion and upgrade project. The City wastewater utility has a \$10,000,000 public works trust fund loan of which \$9,500,000 in loan proceeds were received in 2008. The other wastewater utility loan is a Department of Ecology state revolving loan authorized in the amount of \$20,359,763. \$9,947,743 of loan proceeds have been drawn on this loan, including \$5,903,705 in loans and \$241,158 in capitalized interest costs, in 2008.

The City of Mount Vernon is authorized to issue debt pursuant to the Acts of the State of Washington. With voter approval, the City can issue debt up to 2.5 percent of the assessed valuation. Without a vote, the City can incur debt up to an amount equal to 1.5 percent of the assessed valuation of

taxable property within the City. The combination of unlimited tax and limited tax general obligation debt for all purposes cannot exceed 7.5 percent.

Economic Factors

The City of Mount Vernon considered many factors when setting the 2008 fiscal year budget, property tax rates and the fees that will be charged the citizens of the community for government activities and business-type activities. The state of the economy for the region, state and nation were taken into consideration in establishing the City's annual budget for 2008. Both residential and commercial growth of the City, were factors weighed, as well as the attraction of our community as a place to live and work. The City has seen substantial growth in 2005, 2006 and 2007 in residential construction and at the time the City adopted the 2008 budget in November 2007 we anticipated that this growth would begin to slow. As calendar year 2008 progressed we experienced a

downturn in the economy not only at the local level but also at the regional, state and national level. At the close of the year, the City's General Fund had a fund balance of \$4,278,931 which still not only met but exceeded the City's goal of adequate fund reserves. Based on these considerations as well as others, the City of Mount Vernon is cautiously optimistic about the City's future economic health while taking a very conservative view on budget growth.

The City's overall financial position has remained strong as compared to the prior year. The City is not facing any foreseeable restrictions or other limitations that would significantly impact funding resources for future uses.

One of the reasons the City has maintained its overall financial position is due to the conservative approach that is taken in regards to budget growth and increases to personnel. The City understands that the spike in construction sales tax collections that was experienced in the prior three years should not be used to fund on-going operational costs.

One significant commitment that the City has undertaken is the wastewater utility plant expansion and upgrade project. The City utility will begin seeing a significant increase in debt service costs beginning in 2009 resulting from the loan financing of this project. Sewer utility rates and sewer connection fees were reviewed during 2008 and new sewer utility rates were implemented in January 2009 while the sewer connection fees were increased effective September 2008.

One other significant project that the City is working on is the Downtown and Waterfront Revitalization Project which has infrastructure costs estimated at \$40,000,000. The three major infrastructure components of this estimated cost include a flood control structure, a promenade that will extend the length of the core downtown area along the river and a parking facility structure in downtown. Final engineering

and final property acquisitions for the flood control and promenade projects should be completed in 2009. The City continues to aggressively work on the financing elements of the project which are needed to begin the construction phase. Cost incurred in 2008 included engineering and costs associated with property acquisition. Construction activity could begin in 2010 should funding elements be secured.

The State of Washington, by constitution, does not have a state personal income tax and therefore the state operates primarily using property, sales, business and occupation, and gasoline taxes. The City of Mount Vernon primarily relies on property, sales and utility taxes, and franchise fees to fund governmental activities.

For business-type and certain governmental activities (e.g. permitting and recreation) the user pays a related fee or charge associated with the service provided. No fees were increased during the 2008 year for business-type activities other than the September 1 increase to the wastewater connection fees.

Financial Contact

The City's financial statements are designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Department, 910 Cleveland Avenue, P.O. Box 809, Mount Vernon, Washington, 98273.