



To: Mayor and City Councilmembers
From: Tho Kraus, Assistant City Manager/Administrative Services
Through: John J. Caulfield, City Manager
Date: November 5, 2018
Subject: Public Hearing on the 2019/2020 Proposed Biennial Budget and 2019 Property Tax Levy

INTRODUCTION

Per state law, the City Council must adopt the 2019/2020 Biennial Budget no later than December 31, 2018. Additionally, a public hearing on the proposed biennial budget and property tax is required in connection with the budget process. The schedule of open public meetings held and upcoming to review the proposed 2019/2020 biennial budget is as follows:

September 24, 2018

Review of 2019 Property Tax Levy

October 1, 2018

City Manager presentation of the proposed 2019/2020 Biennial Budget

October 3, 2018

Department Budget Presentations (City Council, City Manager, Community & Economic Development, Parks, Recreation & Community Services, Legal)

October 10, 2018

Department Budget Presentations (Police, Public Works Engineering, Municipal Court, Administrative Services)

October 22, 2018

6-Year Financial Forecast

November 5, 2018

Public Hearing on the 2019/2020 Proposed Biennial Budget & 2019 Property Tax Levy

November 13, 2018

Review of 2019 Human Services Funding
Review of 2019 Lodging Tax Recommendations
Review of Fee Schedule Amendments
Review Consolidation of Sewer Capital Funds
Review Sewer Utility Surcharge Amendments
Review of 2019/2020 Proposed Biennial Budget

November 19, 2018

Adopt 2019 Human Services Funding
Adopt 2019 Lodging Tax Allocations
Adopt Fee Schedule Amendments
Adopt Consolidation of Sewer Capital Funds
Adopt Sewer Surcharge Amendments
Adopt 2019 Property Tax Levy
Adopt 2019/2020 Biennial Budget

A hard copy of the Proposed 2019/2020 Biennial Budget is available for viewing at City Hall and also electronically at <https://www.cityoflakewood.us/finance/budget>.

PROPOSED 2019/2020 BIENNIAL BUDGET

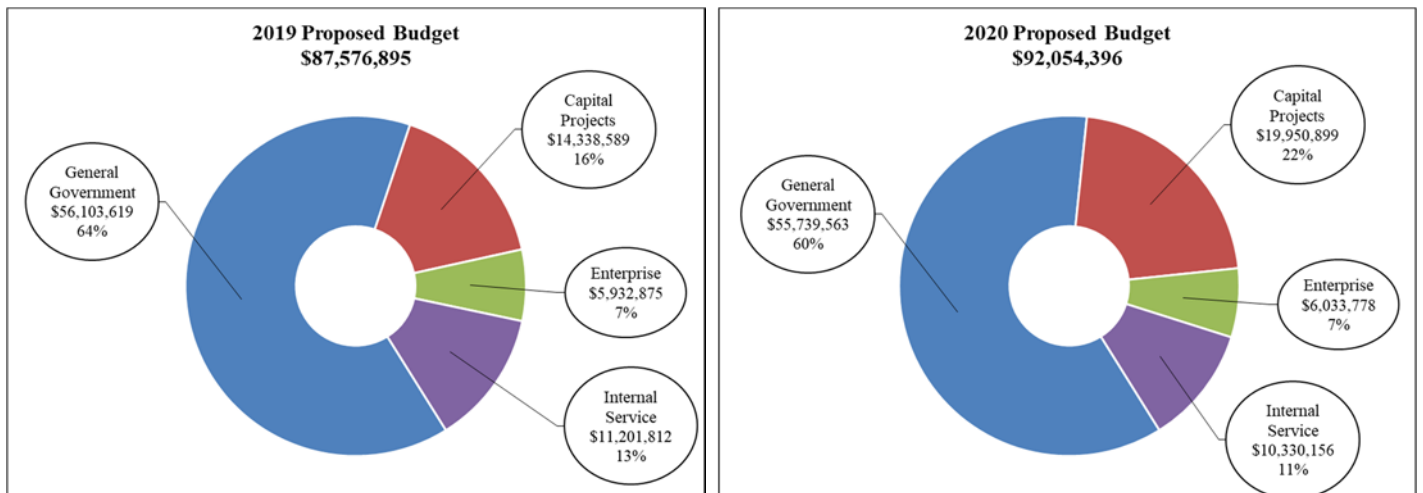
CHANGES TO THE ORIGINAL PROPOSED BUDGET

The following changes have been made to the proposed biennial budget since it was presented to the City Council on October 1, 2018:

- Fund 102 Real Estate Excise Tax Fund:
 - Increase REET transfer to Parks CIP by \$83,000 in 2019, funded by increase in REET 2018 year-end estimate
- Fund 301 Parks CIP:
 - Add \$50,000 in 2019 for Oakbrook Park Improvements, funded by REET \$13,000 and Pierce County \$37,000.
 - Add \$70,000 in 2019 for Restroom Improvements at Pavilion in the Parks, funded by REET \$70,000.
- Fund 195 Public Safety Grants:
 - Add \$105,306 in 2019 and \$130,037 in 2020 for Veterans Court, funded by grant revenue.
 - Add 0.50 FTE Court Clerk limited term position with end date 12/31/2020 as part of the grant acceptance. The position is accounted for in the General Fund with no budgetary impact since it is offset by the Probation Officer position cost savings.

PROPOSED 2019/2020 BIENNIAL BUDGET

The Proposed 2019/2020 Biennial Budget totals \$87,576,895 in 2019 and \$92,054,396 in 2020 as follows:



Fund	2019 Proposed				2020 Proposed				
	Beginning Fund Balance	Revenue	Expenditure	Ending Fund Balance	Beginning Fund Balance	Revenue	Expenditure	Ending Fund Balance	
General Government Funds:	\$ 8,049,087	\$ 48,054,532	\$ 49,547,461	\$ 6,556,158	\$ 6,556,158	\$ 49,183,405	\$ 49,403,571	\$ 6,335,992	
001 General Fund	5,798,575	39,325,950	39,786,266	5,338,259	5,338,259	39,725,600	40,196,689	4,867,170	
101 Street	-	2,439,541	2,439,541	-	-	2,455,935	2,455,935	-	
102 Real Estate Excise Tax	83,000	1,700,000	1,783,000	-	-	1,700,000	1,700,000	-	
103 Transportation Benefit District	-	814,000	814,000	-	-	814,000	814,000	-	
104 Hotel/Motel Lodging Tax	1,049,220	800,000	1,049,220	800,000	800,000	800,000	800,000	800,000	
105 Property Abatement/RHSP	-	338,600	338,600	-	-	328,800	328,800	-	
106 Public Art	-	15,000	15,000	-	-	15,000	15,000	-	
180 Narcotics Seizure	-	60,500	60,500	-	-	70,000	70,000	-	
181 Felony Seizure	-	-	-	-	-	-	-	-	
182 Federal Seizure	-	9,600	9,600	-	-	39,600	39,600	-	
190 CDBG	-	565,000	565,000	-	-	560,000	560,000	-	
191 Neighborhood Stabilization Prog	-	8,500	8,500	-	-	24,700	24,700	-	
192 SSMCP	-	277,100	277,100	-	-	277,100	277,100	-	
195 Public Safety Grants	-	105,306	105,306	-	-	130,037	130,037	-	
201 GO Bond Debt Service	-	626,206	626,206	-	-	1,250,656	1,250,656	-	
202 LID Debt Service	-	197,600	197,600	-	-	203,500	203,500	-	
204 Sewer Project Debt	991,245	771,629	1,472,022	290,852	290,852	788,477	537,554	541,775	
251 LID Guaranty	127,047	-	-	127,047	127,047	-	-	127,047	
Capital Project Funds:	\$ 1,040,629	\$ 13,297,960	\$ 10,266,390	\$ 4,072,199	\$ 4,072,199	\$ 15,878,700	\$ 18,303,000	\$ 1,647,899	
301 Parks	-	2,605,000	1,725,000	880,000	880,000	2,980,000	3,860,000	-	
302 Transportation	300,000	8,848,570	6,655,000	2,493,570	2,493,570	12,703,700	14,320,000	877,270	
311 Sewer Project	28,239	1,844,390	1,174,000	698,629	698,629	195,000	123,000	770,629	
312 Sanitary Sewer Connection	712,390	-	712,390	-	-	-	-	-	
Enterprise Fund:	\$ 2,155,074	\$ 3,777,800	\$ 3,853,997	\$ 2,078,878	\$ 2,078,878	\$ 3,954,900	\$ 5,143,366	\$ 890,412	
401 Surface Water Management	2,155,074	3,777,800	3,853,997	2,078,878	2,078,878	3,954,900	5,143,366	890,412	
Internal Service Funds:	\$ 5,168,715	\$ 6,033,097	\$ 5,906,452	\$ 5,295,360	\$ 5,295,360	\$ 5,034,796	\$ 5,559,252	\$ 4,770,904	
501 Fleet & Equipment	4,787,279	1,688,521	1,660,720	4,815,080	4,815,080	755,720	1,352,020	4,218,780	
502 Property Management	316,436	777,111	745,111	348,436	348,436	778,684	773,684	353,436	
503 Information Technology	65,000	1,982,806	1,915,962	131,844	131,844	1,915,733	1,848,889	198,688	
504 Risk Management	-	1,584,659	1,584,659	-	-	1,584,659	1,584,659	-	
Grand Total - All Funds	\$ 16,413,505	\$ 71,163,389	\$ 69,574,300	\$ 18,002,595	\$ 18,002,595	\$ 74,051,801	\$ 78,409,189	\$ 13,645,207	
				Total Budget	\$ 87,576,895			Total Budget	\$ 92,054,396

BUDGET SUMMARY

The budget includes funds in support of the following:

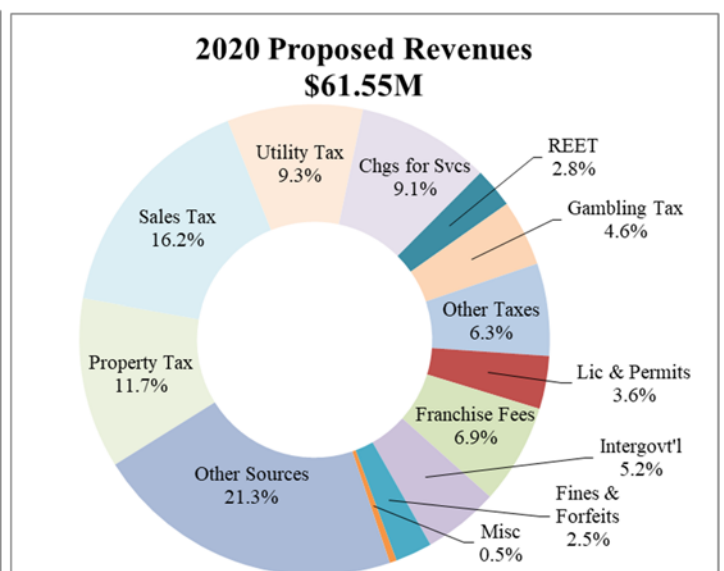
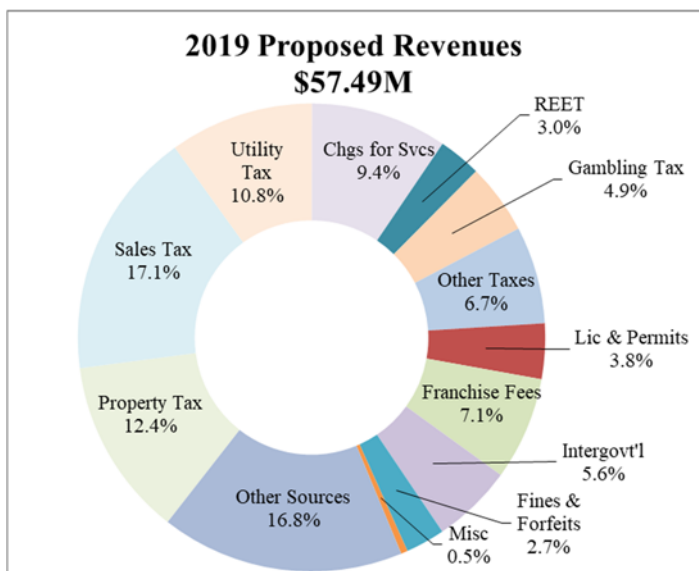
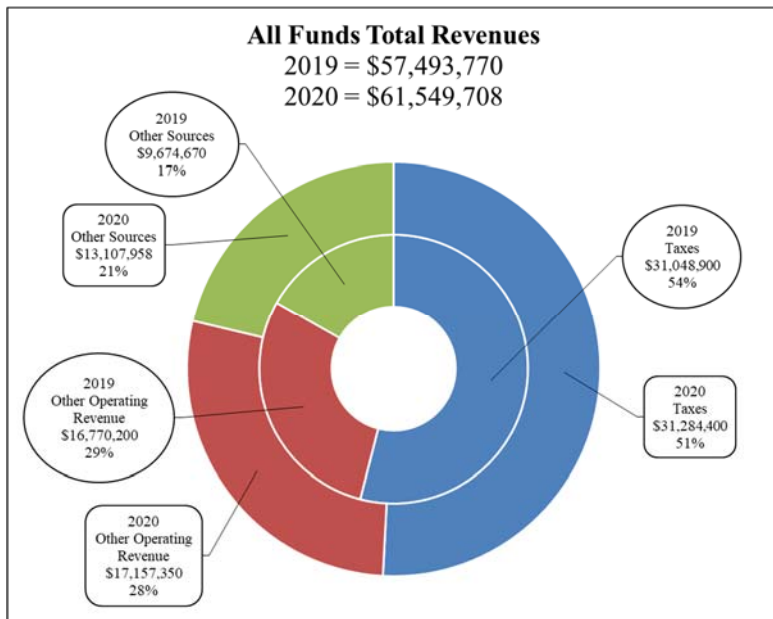
- Continue to act and serve in a leadership capacity in national, state, regional and local affairs;
- Develop an online Community Dashboard;
- Craft and implement a comprehensive imaging campaign for the City;
- Launch a new City web platform;
- Continue with a proactive County, State and Federal legislative agenda that promotes and protects the interests and needs of the Lakewood community;
- Continue to partner with the Pierce County Library System to construct a new library in the downtown that will include the incorporation of a community/senior activity center and a new library in Tillicum neighborhood;
- Strong and transparent financial reporting with a focus on full disclosure to include the preparation of the biennial budget, Popular Annual Financial Report (PAFR), Comprehensive Annual Financial Report (CAFR), six-year financial forecast, performance measures, and fleet user's manual;
- Implementation of city-wide document management and paperless system;
- Formation of a City Equity Team to promote workforce diversity and change with the organization to better serve the community;
- Continue with targeted economic development with a specific focus on the Central Business District/Towne Center, I-5 retail frontage along Pacific Highway South (Lakewood Landing), Woodbrook Industrial Business Park, International District, Springbrook and Tillicum, and McChord North Clear Zone (NCZ). Additional resources totaling one-half of an FTE (Planning Manager-Special Projects) are provided to support economic development citywide;
- Proactive approach representing the City and participation at PCRC and PSRC to include sub-group meetings;
- Major code updates to include revision of Title 18A and update of Shoreline Management Plan (SMP);
- Evaluate options for a new online permit system to include possible partnership with Pierce County;
- Continue implementation of rental housing safety program;
- Continue proactive abatement program that includes the addition of a program coordinator;
- A building inspector and/or plans examiner apprenticeship program in partnership with a local community college;
- City's leadership and contribution to the South Sound Military and Communities Partnership (SSMCP) to continue implementing the Joint Base Lewis-McChord (JBLM) Growth Coordination Plan and implementation of Joint Land Use Study (JLUS) with a continued focus on protecting JBLM from urban encroachment by addressing land use issues, transportation and finding solutions to address the North Clear Zone (NCZ);
- Update Lakewood Legacy Plan;
- Implement a cooperative use agreement between the City and Clover Park School District;
- Continue commitment to setting aside 1% of General Fund for human and social services to include homelessness and mental illness;
- Develop a new youth afterschool program to create safe and structured opportunities for youth;
- Develop youth summit to engage teens in community issues and gather information for future programs;
- Support 2019 international cyclocross event at Fort Steilacoom Park that will bring tourists from throughout the nation and world to our community;
- Additional resources provided in support of street landscaping program given number of recent capital investments;
- Implementation of a free summer concert series at Fort Steilacoom Park;

- Update Non-Motorized Transportation Plan;
- Expansion of Veteran’s Court and evaluate community/mental health court models;
- Resources to continue implementation of in-car camera systems in patrol vehicles;
- Revitalize the bike patrol unit for parks and isolated neighborhoods;
- Create a Community Academy taught by police officers that exposes community members to police work;
- Evaluate options to replace Pred-Pol (Predictive Policing) program;
- Continues the partnership between the City and West Pierce Fire and Rescue (WPFR) in support of shared emergency management services; and
- Defer collection of fleet and equipment reserves by one year by extending the life on assets by one year.

ALL FUNDS - REVENUES

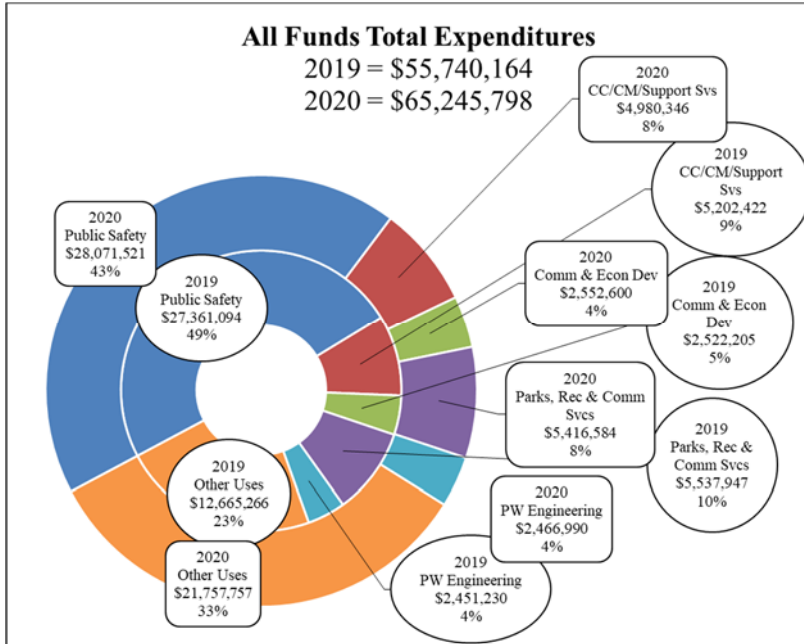
Revenues for all funds total \$57,493,770 in 2019 and \$61,549,708 in 2020. Taxes (sales tax, property tax, utility tax, gambling tax, admissions tax, real estate excise tax and other taxes) account for 54% of total revenues in 2019 and 51% in 2020. Operating revenues total \$47,819,100 in 2019 and \$48,441,750 in 2020 while other sources total \$9,674,670 in 2019 and \$13,107,958 in 2020.

Item	2019 Proposed	2020 Proposed
<i>BEGINNING FUND BALANCE</i>	\$ 16,413,506	\$ 18,002,596
OPERATING REVENUE:		
Property Tax	7,110,000	7,202,400
Sales Tax	9,852,600	9,951,100
Utility Tax	5,735,200	5,745,800
Real Estate Excise Tax	1,700,000	1,700,000
Gambling Tax	2,801,000	2,801,000
Other Taxes	3,850,100	3,884,100
Licenses & Permits	2,206,600	2,240,500
Franchise Fees	4,108,800	4,232,100
Intergovernmental	3,199,500	3,199,450
Charges for Services	5,428,000	5,630,800
Fines & Forfeits	1,560,900	1,560,900
Miscellaneous	266,400	293,600
Total Operating Revenues	\$ 47,819,100	\$ 48,441,750
CAPITAL AND OTHER SOURCES:		
Capital Grants & Contributions	6,986,870	10,665,000
Other Sources	2,687,800	2,442,958
Total Other Sources	\$ 9,674,670	\$ 13,107,958
SUBTOTAL REVENUES	\$ 57,493,770	\$ 61,549,708
INTERFUND TRANSACTIONS:		
Interfund Charges	5,355,183	4,644,202
Interfund Transfers	8,314,437	7,857,891
Total Rev/Other Sources/Interfund	\$ 71,163,390	\$ 74,051,801
TOTAL SOURCES	\$ 87,576,895	\$ 92,054,396

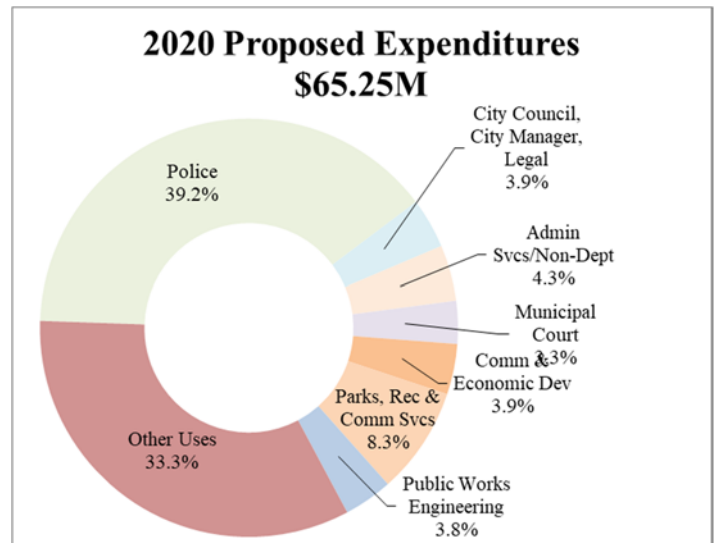
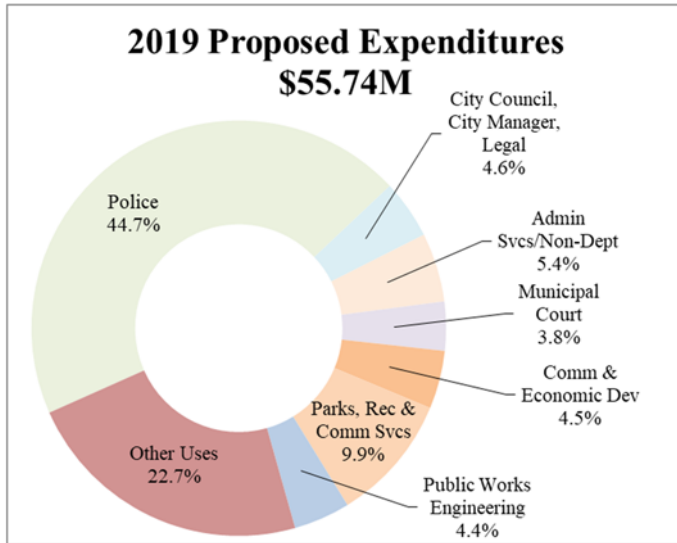


ALL FUNDS – EXPENDITURES

Expenditures for all funds total \$55,704,858 in 2019 and \$65,245,798 in 2020. Public safety (police, criminal prosecution and municipal court) account for 49% of total expenditures in 2019 and 43% in 2020. Operating expenditures total \$43,074,898 in 2019 and \$43,448,041 in 2020 while other uses total \$12,665,266 in 2019 and \$21,757,757 in 2020.



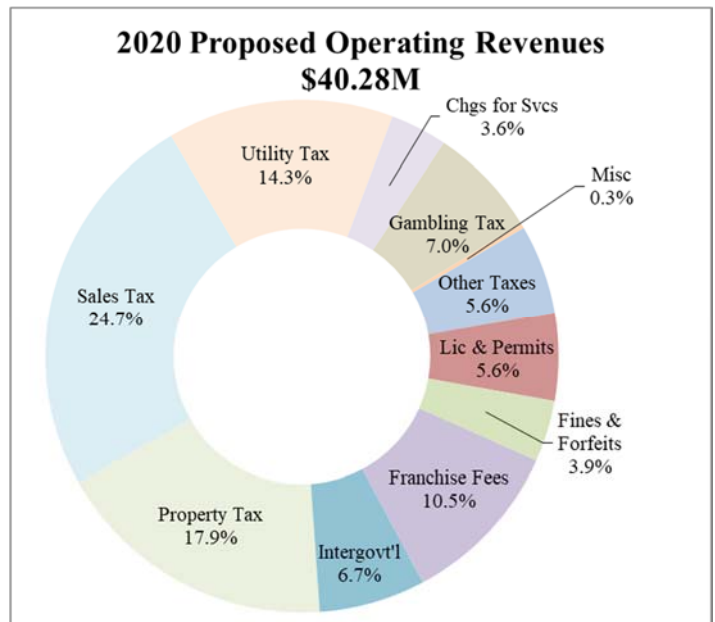
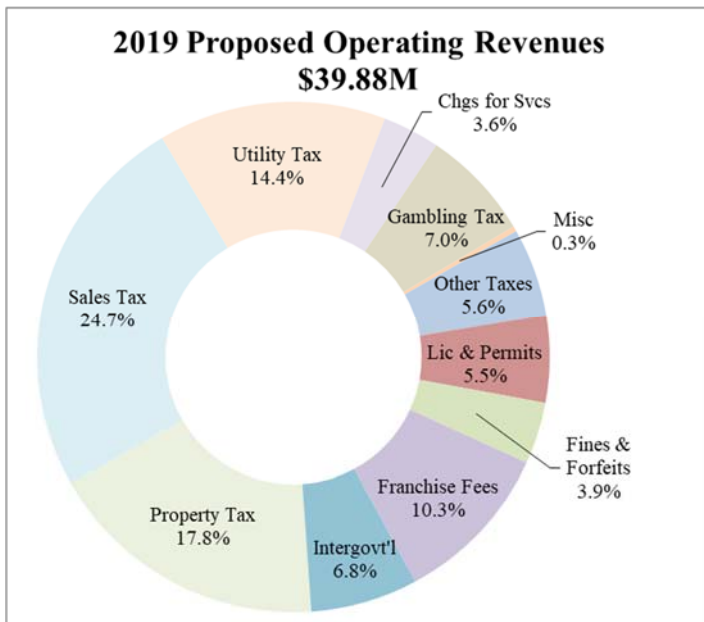
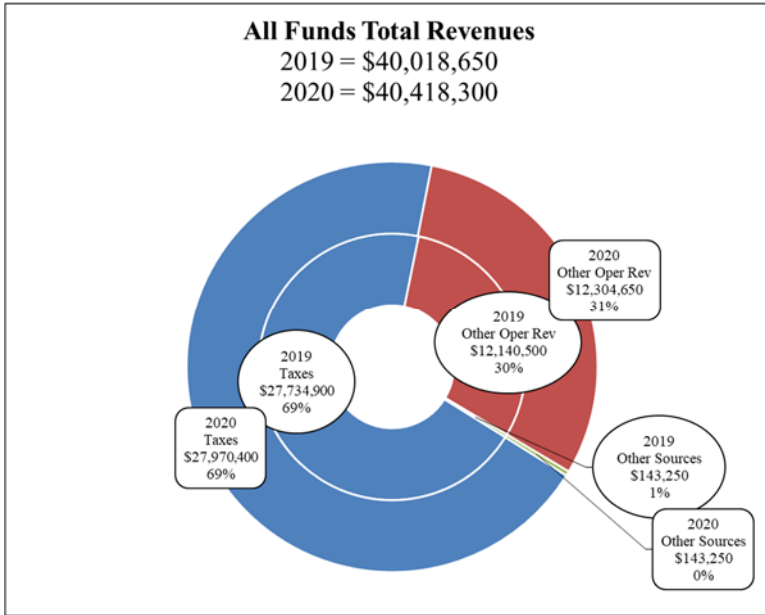
Item	2019 Proposed	2020 Proposed
OPERATING EXPENDITURE:		
City Council	\$ 136,853	\$ 136,853
City Manager	706,338	716,460
Municipal Court	2,126,507	2,158,418
Administrative Services	2,861,180	2,663,255
Non-Departmental	133,960	133,960
Legal	1,708,981	1,681,540
Comm & Economic Dev	2,522,205	2,552,600
Parks, Rec & Comm Svcs	5,537,947	5,416,584
Police	24,889,697	25,561,381
Public Works Engineering	2,451,230	2,466,990
Total Operating Expenditures	\$ 43,074,898	\$ 43,488,041
OTHER USES:		
Operating Grants/One-time Uses	1,802,438	1,518,047
Debt Service	1,308,828	1,936,710
Capital Improvements	9,554,000	18,303,000
Total Other Uses	\$ 12,665,266	\$ 21,757,757
SUBTOTAL EXPENDITURES	\$ 55,740,164	\$ 65,245,798
INTERFUND TRANSACTIONS:		
Interfund Services	5,519,702	5,305,502
Interfund Transfers	8,314,437	7,857,891
Total Interfund Transactions	\$ 13,834,139	\$ 13,163,393
Total Exp/Other Uses/Interfund	\$ 69,574,303	\$ 78,409,191
Changes in Fund Balance	\$ 1,589,087	\$ (4,357,390)
ENDING FUND BALANCE:	\$ 18,002,597	\$ 13,645,208
TOTAL USES	\$ 87,576,895	\$ 92,054,396



GENERAL & STREET FUND - REVENUES

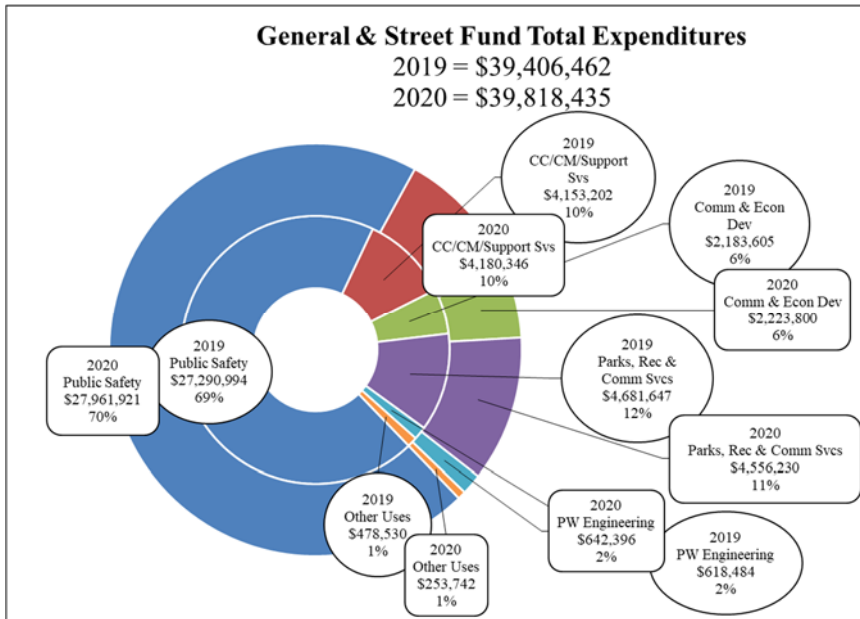
Revenues for General & Street Fund total \$40,018,650 in 2019 and \$40,418,300 in 2020. Taxes (sales tax, property tax, utility tax, gambling tax, admissions tax, and other taxes) account for 69% of total revenues in 2019 and 69% in 2020. Operating revenues total \$39,875,400 in 2019 and \$40,275,050 in 2020 while other sources total \$143,250 in 2019 and \$143,250 in 2020.

General & Street Fund	2019 Proposed	2020 Proposed
<i>BEGINNING FUND BALANCE</i>	\$ 5,798,574	\$ 5,338,258
OPERATING REVENUE:		
Property Tax	7,110,000	7,202,400
Sales Tax	9,852,600	9,951,100
Utility Tax	5,735,200	5,745,800
Gambling Tax	2,801,000	2,801,000
Other Taxes	2,236,100	2,270,100
Licenses & Permits	2,206,600	2,240,500
Franchise Fees	4,108,800	4,232,100
Intergovernmental	2,694,800	2,694,750
Charges for Services	1,435,700	1,442,700
Fines & Forfeits	1,560,900	1,560,900
Miscellaneous	133,700	133,700
Total Operating Revenues	\$ 39,875,400	\$ 40,275,050
CAPITAL AND OTHER SOURCES:		
Other Sources	143,250	143,250
Total Other Sources	\$ 143,250	\$ 143,250
SUBTOTAL REVENUES	\$ 40,018,650	\$ 40,418,300
INTERFUND TRANSACTIONS:		
Interfund Transfers	1,746,842	1,763,237
Total Rev/Other Sources/Interfund	\$ 41,765,492	\$ 42,181,537
TOTAL SOURCES	\$ 47,564,066	\$ 47,519,795

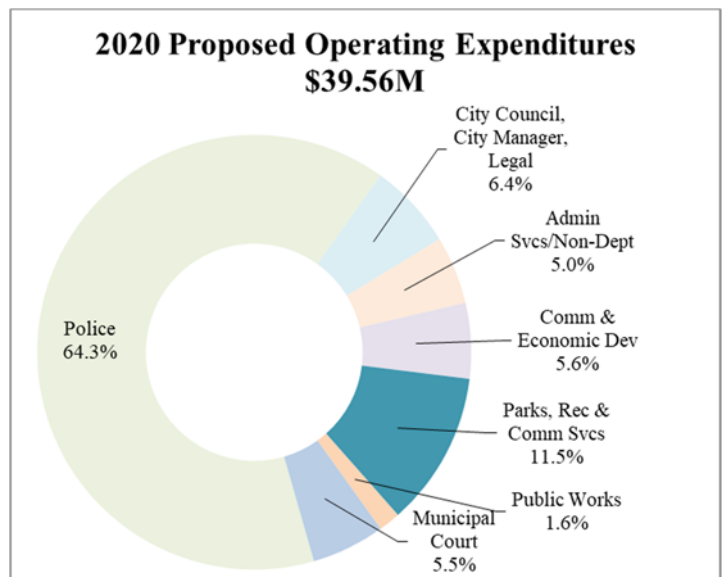
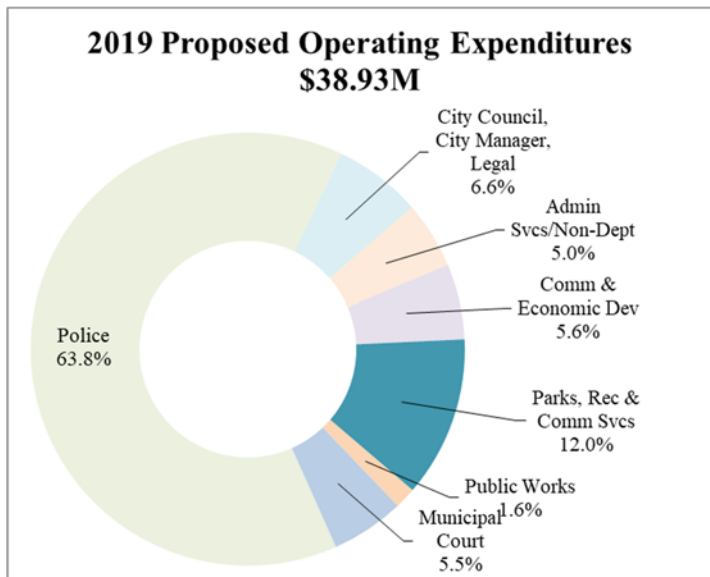


GENERAL & STREET FUND – EXPENDITURES

Expenditures for General & Street Fund total \$39,406,462 in 2019 and \$39,818,435 in 2020. Operating expenditures total \$38,927,932 in 2019 and \$39,564,693 in 2020 while other sources total \$143,250 in 2019 and \$143,250 in 2020.



General & Street Fund	2019 Proposed	2020 Proposed
OPERATING EXPENDITURE:		
City Council	\$ 136,853	\$ 136,853
City Manager	706,338	716,460
Municipal Court	2,126,507	2,158,418
Administrative Services	1,811,960	1,863,255
Non-Departmental	133,960	133,960
Legal	1,708,981	1,681,540
Comm & Economic Dev	2,183,605	2,223,800
Parks, Rec & Comm Svcs	4,681,647	4,556,230
Police	24,819,597	25,451,781
Public Works	618,484	642,396
Total Operating Expenditures	\$ 38,927,932	\$ 39,564,693
OTHER USES:		
Operating Grants/One-time Uses	478,530	253,742
Total Other Uses	\$ 478,530	\$ 253,742
SUBTOTAL EXPENDITURES	\$ 39,406,462	\$ 39,818,435
INTERFUND TRANSACTIONS:		
Interfund Transfers	2,819,347	2,834,191
Total Interfund Transactions	\$ 2,819,347	\$ 2,834,191
Total Exp/Other Uses/Interfund	\$ 42,225,809	\$ 42,652,626
Changes in Fund Balance	\$ 1,672,087	\$ (4,357,390)
ENDING FUND BALANCE:	\$ 5,338,257	\$ 4,867,169
TOTAL USES	\$ 47,564,066	\$ 47,519,795



GENERAL & STREET FUND – ENDING FUND BALANCE

Ending fund balance for all funds total \$18,002,595 in 2019 and \$13,645,207 in 2020. General & Street Fund ending fund balance meet the 12% target reserves established as follows:

- *2% General Fund Contingency Reserves (\$803K in 2019 / \$811K in 2020):* The purpose of this reserve is to accommodate unexpected operational changes, legislative impacts, or other economic events affecting the City’s operations which could not have been reasonably anticipated at the time the original budget was prepared. The City Council will determine how the Contingency Reserves are spent.
- *5% General Fund Ending Fund Balance Reserves (\$2.00M in 2019 / \$2.03M in 2020):* The purpose of this reserve is to provide financial stability, cash flow for operations and the assurance that the City will be able to respond to revenue shortfalls with fiscal strength.
- *5% Strategic Reserves (\$2.00M in 2019 / \$2.03M in 2020):* The purpose of this reserve is to provide some fiscal means for the City to respond to potential adversities such as public emergencies, natural disasters or similarly major, unanticipated events.

Fund Balance	2019 Proposed	2020 Proposed
Total General/Street O&M Funds	\$ 5,338,259	\$ 4,867,170
2% Contingency Reserves	803,202	811,195
5% General Fund Reserves	2,008,005	2,027,988
5% Strategic Reserves	2,008,005	2,027,988
Unreserved/(Shortfall)	519,047	-
Total Designated/Reserved	\$ 12,664,335	\$ 8,778,036
Reserved for Operations:		
102 Real Estate Excise Tax	-	-
103 Transportation Benefit District	-	-
104 Hotel/Motel Lodging Tax	800,000	800,000
105 Property Abatement/RHSP	-	-
106 Public Art	-	-
180 Narcotics Seizure	-	-
181 Felony Seizure	-	-
182 Federal Seizure	-	-
190 CDBG	-	-
191 Neighborhood Stabilization Prog	-	-
192 SSMCP	-	-
195 Public Safety Grant	-	-
401 Surface Water Management	2,078,877	890,411
Debt Service:		
201 GO Bond Debt Service	-	-
202 LID Debt Service	-	-
204 Sewer Project Debt Service	290,852	541,775
251 LID Guaranty	127,047	127,047
Capital Projects:		
301 Parks Capital	880,000	-
302 Transportation Capital	2,493,570	877,270
311 Sewer Capital Project	698,629	770,629
312 Sanitary Sewer Connection CIP	-	-
Replacement Reserves:		
501 Fleet & Equipment	4,815,080	4,218,780
502 Property Management	348,436	353,436
503 Information Technology	131,844	198,688
504 Risk Management	-	-
Total Ending Fund Balance	\$ 18,002,595	\$ 13,645,207



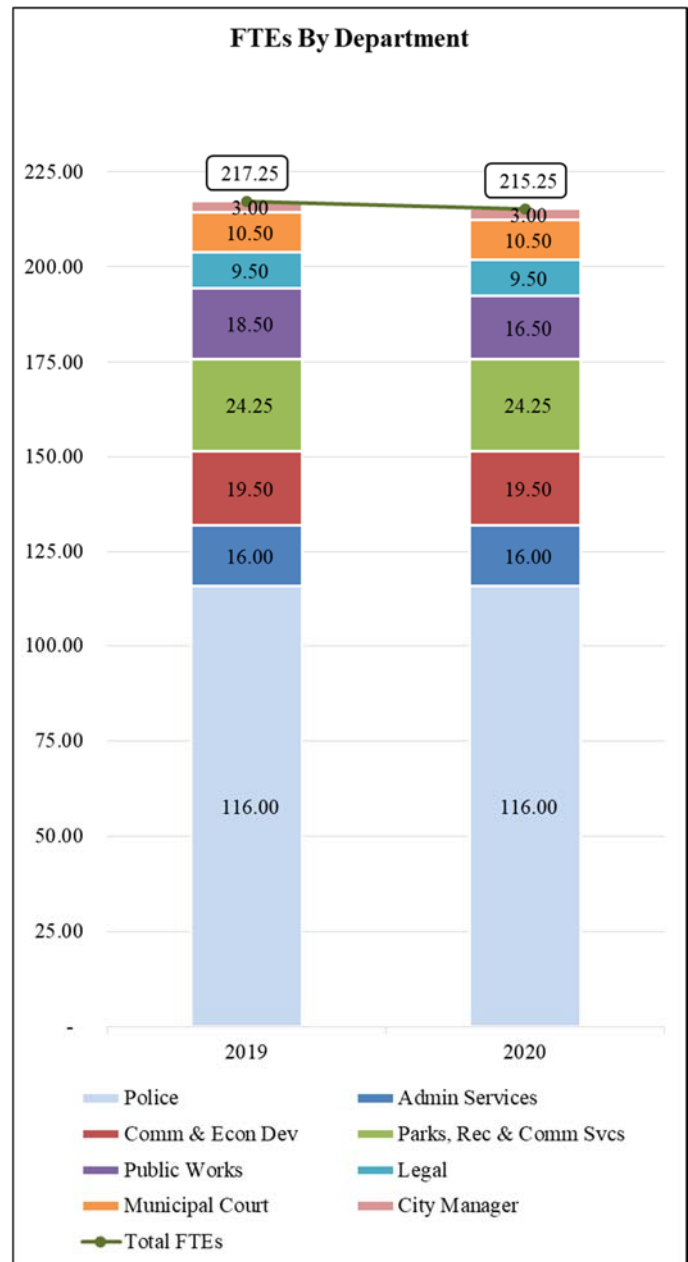
CITY EMPLOYEES

The 2019/2020 proposed biennial budget includes funding for 217.25 FTEs in 2019 and 215.25 FTEs in 2020 and includes the following changes:

City Personnel Changes		
Department	FTE Change	Description
City Manager	0.00	Convert Assistant to City Manager 1.00 FTE to Senior Policy Analyst 1.00 FTE.
Municipal Court	(0.50)	Eliminate vacant Court Clerk. Add 0.50 Court Clerk limited term position expires 12/31/2020.
Legal	(1.50)	Eliminate vacant Executive Assistant 1.00 FTE. Eliminate vacant Office Assistant 0.50 FTE.
Comm & Econ Dev	1.00	Convert Assistant to City Manager 1.00 FTE to Planning Manager (Special Projects) 1.00 FTE. Convert Administrative Assistant 1.00 FTE from limited term to regular position with no end date. Add Program Coordinator 1.00 FTE in support of rental housing safety and abatement program.
Public Works Engineering	(2.00)	Vacant Engineering Technician 1.00 FTE. Associate Engineering Technician 1.00 FTE limited term position 12/31/2018. An additional 2.00 FTEs will be eliminated at the end of 2019: Construction Inspector 1.00 FTE limited term position expires 12/31/2019. Associate Engineering Technician 1.00 FTE limited position expires 12/31/2019.
Total	(3.00)	Change compared to 2018

FTEs by Department	2019 Adopted	2020 Adopted
City Manager	3.00	3.00
Administrative Services	16.00	16.00
Finance	8.00	8.00
Information Technology	4.00	4.00
Human Resources	4.00	4.00
Community & Economic Development	18.50	18.50
Current Planning	4.36	4.36
Long Range Planning	1.32	1.32
Building	6.82	6.82
Economic Development	1.00	1.00
Community Services	3.00	3.00
SSMCP	2.00	2.00
Parks, Recreation & Community Services	24.25	24.25
Administration	1.00	1.00
Human Services	0.50	0.50
Recreation	2.50	2.50
Senior Services	1.50	1.50
Park Facilities	2.95	2.95
Fort Steilacoom	4.45	4.45
Street Landscape	1.00	1.00
Street O&M	6.90	6.90
SWM O&M	1.50	1.50
Property Management	1.95	1.95
Public Works	16.50	16.50
Street Engineering Services	2.40	2.40
SWM Engineering Services	8.00	8.00
Transportation Capital	6.10	6.10
Legal	9.50	9.50
Civil	5.50	5.50
Criminal	2.00	2.00
City Clerk	2.00	2.00
Municipal Court	10.00	10.00
Police	116.00	116.00
Commissioned	100.00	100.00
Limited Commission	6.00	6.00
Non-Commissioned	10.00	10.00
Total Regular FTEs	213.75	213.75
MC Court Clerk*	0.50	0.50
CED Program Coordinator*	1.00	1.00
CED RHSP Administrative Assistant	-	-
PW Engineering Associate Civil Engineer	-	-
PW Engineering Construction Inspector	1.00	-
PW Engineering Associate Engineering Technician	1.00	-
Total Limited Term FTEs	3.50	1.50
Grand Total	217.25	215.25

* End date 12/31/2020



DEBT MANAGEMENT

In June 2018 Standard & Poor's Ratings Services (S&P) raised the City's credit rating from "AA-" to "AA" with respect to the City's General Obligation Bonds. At the same time, Standard & Poor's affirmed the "A-" long-term rating on the City's Special Assessment Bonds for Local Improvement District No. 1101, Series 2006. S&P specifically noted the City's strong management, strong budgetary performance, very strong budgetary flexibility, very strong liquidity, and very strong debt and contingent liability profile.

This is the second increase in four years. In 2014, S&P upgraded the City's rating to AA-, up from A. In four years, the City's bond rating has increased three steps. The 'AA' Bond Rating, which is an extraordinary achievement for our city, will translate into lower financing costs by attracting a broader range of investors. This rating is also a positive reflection of the city's effectiveness in managing its financial resources.

Existing General Government debt service is comprised of a promissory note issued in 2005 in support of 59th Street roadway improvements, councilmanic GO bonds issued in 2009 in support of constructing a new police station, and LOCAL funding for the City's LED streetlight retrofit program. Annual General Fund supported debt service payments will total \$442,206 in 2019 and \$440,656 in 2020, which equates to 1.1% of general fund operating revenue.

The City does have other debt, specifically four outstanding public works trust fund loans (PWTFLL) in support of sewer extensions into the Tillicum and Woodbrook neighborhoods that are financed with an assessment on all Lakewood sewer accounts. In addition, the City has two outstanding local improvement districts (LIDs) that were established to help finance street improvements; these debt obligations are repaid through the collection of assessments from adjacent property owners.

The following tables summarized the City's outstanding debt at the end of 2018.

Summary of Outstanding Debt As of December 31, 2018								
Description	Purpose	Issue Date	Final Maturity	Interest Rate %	Amount Issued	Outstanding Debt	Average Annual Payment	Funding Source
2009 Limited Tax General Obligation Bonds (LTGO)	Police Facility	3/31/2009	12/1/2028	3.0 - 5.0%	\$ 2,719,507	\$ -	\$ -	General Fund
2016 Limited Tax General Obligation Bonds (LTGO)	Refunding 2009 LTGO	4/19/2016	12/1/2028	1.40 - 2.41%	\$ 1,884,032	\$ 1,884,032	\$ 210,000	General Fund
LOCAL Financing	LED Streetlight Retrofit	3/24/2015	12/1/2027	2.33%	\$ 1,460,000	\$ 1,175,000	\$ 156,000	General Fund
59th Avenue Promissory Note	ROW / Roadway in Lakewood Towne Center	4/30/2005	4/30/2024	3.74%	\$ 1,071,000	\$ 407,088	\$ 77,000	General Fund
Subtotal					\$ 7,134,539	\$ 3,466,120	\$ 443,000	
PWTFLL 04-691-PRE-132	American Lake Gardens/ Tillicum Sewer	7/7/2005	7/7/2024	1.00%	\$ 593,864	\$ 178,291	\$ 31,000	Assessments on all Lakewood Sewer Accounts
PWTFLL 06-962-022	American Lake Gardens/ Tillicum Sewer	9/18/2006	9/18/2026	0.50%	\$ 5,000,000	\$ 2,355,857	\$ 302,000	Assessments on all Lakewood Sewer Accounts
PWTFLL 08-951-025	American Lake Gardens/ Tillicum Sewer	3/1/2008	7/1/2028	0.50%	\$ 1,840,000	\$ 1,040,261	\$ 107,000	Assessments on all Lakewood Sewer Accounts
PWTFLL 12-951-025	American Lake Gardens/ Tillicum Sewer	6/1/2012	6/1/2031	0.50%	\$ 500,000	\$ 464,286	\$ 37,000	Assessments on all Lakewood Sewer Accounts
Section 108 Loan	108th Street	8/31/2017	8/1/2020	Varies	\$ 141,000	\$ 94,000	\$ 47,000	HUD
Subtotal					\$ 8,074,864	\$ 4,132,695	\$ 524,000	
Combined Local Improve District (CLID) 1101/1103	Street Improvements	12/1/2006	12/1/2026	3.75 - 4.65%	\$ 2,824,704	\$ 310,000	\$ 167,000	Assessment on Eight Property Owners
Local Improvement District (LID) 1108	Street Improvements	1/1/2008	12/1/2027	4.22 - 5.3%	\$ 880,000	\$ 234,767	\$ 56,000	Assessment on Single Business
Subtotal					\$ 3,704,704	\$ 544,767	\$ 223,000	
Capital Lease - Copiers	Copiers	10/1/2015	12/1/2018		\$ 60,018	\$ -	\$ -	General Fund
Subtotal					\$ 60,018	\$ -	\$ -	
Total					\$ 18,974,125	\$ 8,143,582	\$ 1,190,000	

ENTERPRISE FUND – SURFACE WATER MANAGEMENT FUND

Financial Policy Regarding Ending Fund Balance for Enterprise Funds. The City shall maintain a minimum fund balance in its enterprise funds equal to 33% of operating expenses (equivalent to 120 days of operating expenses due to the infrequent revenue stream from annual or bi-annual revenue receipt). This balance shall be maintained to ensure adequate maintenance reserves and cash flow. Additionally, the City shall maintain a capital fund balance equal to 1% of the original system cost, establish and maintain debt service reserves if required as a condition of future debt issuance, and fund system reinvestment annually through rates based on original cost depreciation using a phased in strategy to mitigate potential impacts on rate increases. Balances in excess of reserves may be utilized for capital projects.

The proposed 2019/2020 biennial budget includes transfers to Parks CIP and Transportation CIP for the storm related portion of capital project cost. The result is positive ending fund balances, although short of target reserves. The shortage can be rectified by reducing SWM capital projects and/or contributions to other CIP funds in 2019/2020; however, that would result in project delays due to lack of financial resources. The ending fund balance could also be made up as we close out year 2018, through project and personnel savings as personnel costs are charged against grants or transportation capital projects. The financial policies related to the enterprise fund will be reviewed during first quarter 2019.

Below is the proposed 2019/2020 biennial budget and capital project expenditures.

SWM FUND Current Forecast	2019 Estimate	2020 Estimate
Operating Revenues	\$3,777,800	\$3,954,900
Operating Revenue Change Over Prior Year - %	33.77%	4.69%
Operating Expenditures	\$2,973,745	\$2,969,648
Operating Expenditure Change Over Prior Year - %	4.2%	-0.1%
Operating Income / (Loss)	\$804,055	\$985,252
Operating Income / (Loss) as a % of Oper Exp	27.0%	33.2%
Total Other Financing Sources	\$0	\$0
Total Other Financing Uses	\$880,252	\$2,173,718
Total Revenues & Other Financing Sources	\$3,777,800	\$3,954,900
Total Expenditures & Other Financing Uses	\$3,853,997	\$5,143,366
Beginning Fund Balance	\$2,155,074	\$2,078,877
Ending Fund Balance	\$2,078,877	\$890,411
Reserve Target:	\$1,460,275	\$1,461,460
17% Operating Reserves	n/a	n/a
33% Operating Reserves	\$981,336	\$979,984
1% Capital Reserves	\$478,940	\$481,477
Unreserved / (Shortfall):	\$618,602	(\$571,049)

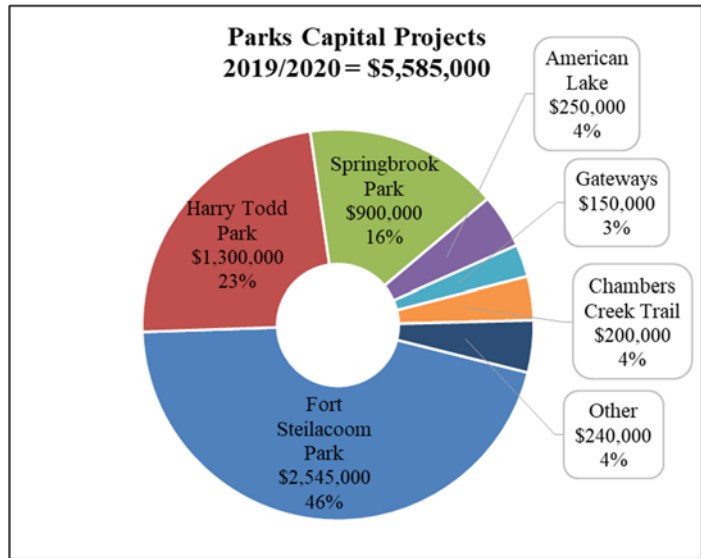
SWM Capital Projects / Contribution to CIP for Storm Related Portion (Included in Other Financing Uses)	2019 Estimate	2020 Estimate
SWM Capital Projects:	\$ 165,000	\$ 245,000
401.0012 Outfall Retrofit Feasibility Project	60,000	-
401.0013 58th Ave Ct Bioretention Swale	80,000	-
401.0014 2021 Water Quality Improvements	-	20,000
401.0015 Oakbrook Outfall Retrofits	25,000	225,000
Contribution to Transportation CIP:	\$ 614,000	\$ 1,870,000
302.0134 Sidewalks: Veterans Drive - Gravelly Lake Drive to American Lake Park	121,000	1,004,000
302.0053 Streets: 123rd St SW - Bridgeport Way to 47th Ave SW	53,000	55,000
302.0063 Colonial Center Plaza	303,000	-
302.0077 Non-Motorized Trail: Gravelly Lake Dr. - Washington Blvd to Nyanza Rd SW	-	50,000
302.0137 Streets: Steilacoom Blvd/88th (Weller to Custer Rd.)	43,000	62,000
302.0138 Sidewalks: Onyx Dr. SW – 89th to 97th and Garnet to Phillips	94,000	699,000
Contribution to Parks CIP:	\$ 50,000	\$ 50,000
301.0005 Chambers Creek Trail	50,000	50,000
	\$ 829,000	\$ 2,165,000

CAPITAL PROJECTS

Parks CIP

The proposed 2019/2020 parks capital projects totals \$5,585,000 as follows:

Parks CIP	2019 Proposed	2020 Proposed
REVENUES		
Funds Anticipated	\$ 1,031,870	\$ 2,850,000
Transfer In-General Fund	80,000	80,000
Transfer In-REET	1,443,130	-
Transfer In-SWM	50,000	50,000
Total Revenues	\$ 2,605,000	\$ 2,980,000
EXPENDITURES		
Capital	1,725,000	3,860,000
Total Expenditures	\$ 1,725,000	\$ 3,860,000
Rev Over/(Under) Exp	\$ 880,000	\$ (880,000)
Beginning Fund Balance, 1/1	\$ -	\$ 880,000
Ending Fund Balance, 12/31	\$ 880,000	\$ -



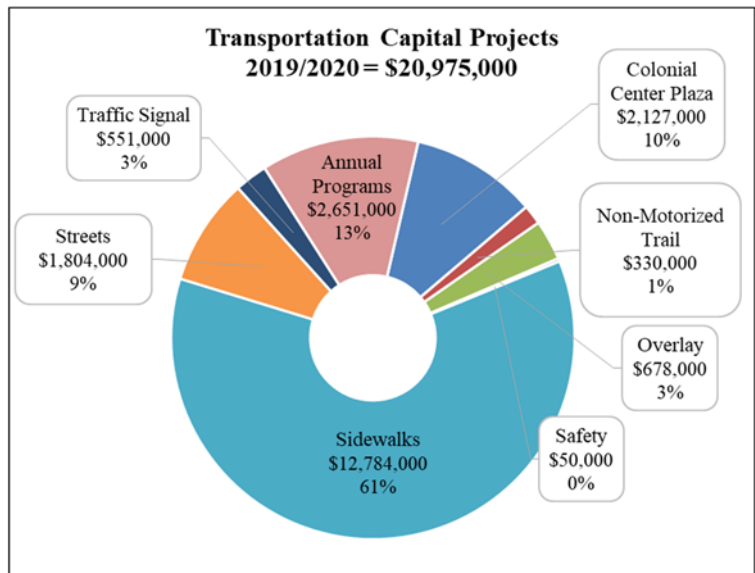
Parks Capital Projects			2019	2020
Fort Steilacoom Park			\$ 1,045,000	\$ 1,500,000
301.0014	Fort Steilacoom Park/Angle Lane Parking & Trail Improvement	*	975,000	-
301.0025	Fort Steilacoom Park ADA/Sensory All Abilities Playground		-	150,000
301.0035	Fort Steilacoom Park Pavilion Restroom Improvements		70,000	-
301.0024	Fort Steilacoom Park Barn Restoration	*	-	100,000
301.0031	Fort Steilacoom Park Turf Infields	*	-	1,250,000
Harry Todd Park			\$ 200,000	\$ 1,100,000
301.0026	Harry Todd Park Phase II (Waterfront)	*	200,000	1,100,000
Springbrook Park			\$ 150,000	\$ 750,000
301.0012	Springbrook Park Acquisition Phase III		150,000	-
301.0032	Springbrook Park Expansion V	*	-	750,000
American Lake/Oakbrook/Chambers/Wards Lake			\$ 100,000	\$ 380,000
301.0027	American Lake Improvements (ADA, Playground, Sanican Enclosure)		-	250,000
301.0005	Chambers Creek Trail		100,000	100,000
301.0020	Wards Lake Improvements		-	30,000
Other			\$ 230,000	\$ 130,000
301.0028	Oakbrook Park Improvements (Playground Replacement)		50,000	-
301.0006	Gateways	*	100,000	50,000
301.0016	Park Equipment Replacement		20,000	20,000
301.0017	Park Playground Resurfacing		10,000	10,000
301.0018	Project Support		50,000	50,000
Total			\$ 1,725,000	\$ 3,860,000

* Contingent on funds anticipated.

Transportation CIP

The proposed 2019/2020 transportation capital projects totals \$20,975,000 as follows:

Item	2019 Proposed	2020 Proposed
REVENUES		
Motor Vehicle Fuel Tax	\$ 350,000	\$ 350,000
Multi-Modal Distribution	82,400	82,400
Increased Gas Tax	72,300	72,300
Grants	810,000	1,675,000
GO Bond Proceeds	5,000,000	6,000,000
Transfer In - General Fund	700,000	700,000
Transfer In - REET Fund	155,870	890,000
Transfer In - TBD Fund	814,000	814,000
Transfer In - CDBG Fund	250,000	250,000
Transfer In - SWM	614,000	1,870,000
Total Sources	\$ 8,848,570	\$ 12,703,700
EXPENDITURES		
Capital Projects	6,655,000	14,320,000
Total Uses	\$ 6,655,000	\$ 14,320,000
Oper Sources/(Under) Uses	\$ 2,193,570	\$ (1,616,300)
Beginning Fund Balance, 1/1	\$ 300,000	\$ 2,493,570
Ending Fund Balance, 12/31	\$ 2,493,570	\$ 877,270



Transportation Capital Projects		2019	2020
Colonial Center Plaza		\$ 2,127,000	\$ -
302.0063	Colonial Center Plaza	2,127,000	-
Non-Motorized Trail		\$ -	\$ 330,000
302.0077	Non-Motorized Trail: Gravelly Lake Dr. - Washington Blvd to Nyanza Rd SW	-	330,000
Overlay		\$ 568,000	\$ 110,000
302.0080	Overlay: 108th Street – Bridgeport Way to Pacific Highway	-	110,000
302.0066	Overlay: Custer - Steilacoom to John Dower	568,000	-
Safety		\$ 25,000	\$ 25,000
302.0003	Safety: Neighborhood Traffic Safety/Traffic Calming	25,000	25,000
Sidewalks		\$ 1,433,000	\$ 11,351,000
302.00134	Sidewalks: Veterans Drive - Gravelly Lake Drive to American Lake Park	809,000	6,690,000
302.00138	Sidewalks: Onyx Dr. SW – 89th to 97th and Garnet to Phillips	624,000	4,661,000
Streets		\$ 639,000	\$ 1,165,000
302.0053	Streets: 123rd Street SW – Bridgeport Way to 47th Ave SW	350,000	367,000
302.0137	Streets: Steilacoom Blvd/88th (Weller to Custer Rd.)	289,000	798,000
Traffic Signal		\$ 551,000	\$ -
302.0060	Traffic Signal Replacement: 100th & Lakewood Drive	551,000	-
Annual Programs		\$ 1,312,000	\$ 1,339,000
302.0001	Personnel, Engineering & Professional Services	532,000	559,000
302.0002	Street Lights: New LED Streetlight	170,000	170,000
302.0004	Minor Capital & Major Maintenance	250,000	250,000
302.0005	Chip Seal Program - Local Access Roads	360,000	360,000
Total		\$ 6,655,000	\$ 14,320,000

Sewer Capital CIP

The proposed 2019/2020 includes consolidation of Fund 312 Sanitary Sewer Connection CIP with Fund 311 Sewer Capital Projects. The proposed 2019/2020 sewer capital projects totals \$1,227,000 plus \$70,000 for administrative costs is as follows:

Sanitary Sewer Connection CIP	2019 Adopted	2020 Adopted
REVENUES		
Sewer Availability Charge	\$ -	\$ -
Total Revenues	\$ -	\$ -
EXPENDITURES		
Transfer to Sewer Capital (to Close out Fund)	712,390	-
Total Expenditures	\$ 712,390	\$ -
Rev Over/(Under) Exp	\$ (712,390)	\$ -
Beginning Fund Balance, 1/1	\$ 712,390	\$ -
Ending Fund Balance, 12/31	\$ -	\$ -

Sewer Capital Project CIP	2019 Proposed	2020 Proposed
REVENUES		
Sewer Availability Charge	\$ 145,000	\$ 140,000
Transfer In-Sewer Debt (Sewer Surcharge 4.75%)	987,000	55,000
Transfer In-Sanitary Sewer Connection CIP (to Consolidate Funds)	712,390	-
Total Revenues	\$ 1,844,390	\$ 195,000
EXPENDITURES		
Administration	35,000	35,000
Capital	1,139,000	88,000
Total Expenditures	\$ 1,174,000	\$ 123,000
Rev Over/(Under) Exp	\$ 670,390	\$ 72,000
Beginning Fund Balance, 1/1	\$ 28,239	\$ 698,629
Ending Fund Balance, 12/31	\$ 698,629	\$ 770,629

Sewer Capital Projects	2019	2020
311.0002 Side Sewer CIPs (Sewer Surcharge 4.75%)	53,000	55,000
311.0004 N. Thorne Ln. Sewer Extension (Sewer Surcharge 4.75%)	934,000	-
311.0005 Maple St. Sewer Extension	-	33,000
311.0013 Ft. Steilacoom Park Sewer Extension	152,000	-
Total	\$ 1,139,000	\$ 88,000

INTERNAL SERVICE FUNDS

The proposed budget for internal service funds total \$5,906,452 in 2019 and \$5,559,252 in 2020 as follows:

Internal Service Funds	2019 Expenditure	2020 Expenditure
501 Fleet & Equipment	1,660,720	1,352,020
502 Property Management	745,111	773,684
503 Information Technology	1,915,962	1,848,889
504 Risk Management	1,584,659	1,584,659
Total	\$ 5,906,452	\$ 5,559,252

The following provides a summary of vehicle and equipment replacements that are included in the proposed 2019/2020 biennial budget:

Proposed Fleet & Vehicle	2019	2020
Replace Police Vehicles (17)	\$ 620,000	\$ -
Replace Police Vehicles (11)	-	596,300
Replace O&M Vehicles (1)	70,000	-
Replace O&M Equipment (5)	126,500	-
Purchase Drop-In Sander for Dump Truck	25,000	-
Purchase Salt Bin Cover	10,000	-
Purchase Broom w/Collection Bin (Skid Steer Attachment)	7,500	-
Purchase Articulating Mower (Skid Steer Attachment)	28,000	-
Purchase 1,000 Gallon Tank to Store De-Icer	18,000	-
Total - Fleet & Equipment	\$ 905,000	\$ 596,300

The following provides a summary of property management projects that are included in the proposed 2019/2020 biennial budget:

Ref #	Proposed Property Management Projects	2019		2020	
		1-Time	Ongoing	1-Time	Ongoing
502.0008	City Hall Exterior Beam Painting	\$ -	\$ -	\$ 75,000	\$ -
502.0009	City Hall Boiler Repair & Replacement	18,000	-	-	-
502.0020	Police Station Parking Lot Improvements	20,000	-	-	-
502.0024	FSP O&M Facility Care Taker House Repairs	-	-	10,000	-
502.0026	Front Street O&M Facility Paving of Washdown Station & Perimeter	10,000	-	-	-
502.0002	General Buildings & Facilities - City Parking Lot Improvement Program	5,000	-	5,000	-
502.0023	General Buildings & Facilities - Light Bulb & Battery Recycling Program	15,000	-	5,000	-
Total - Property Management		\$ 68,000	\$ -	\$ 95,000	\$ -

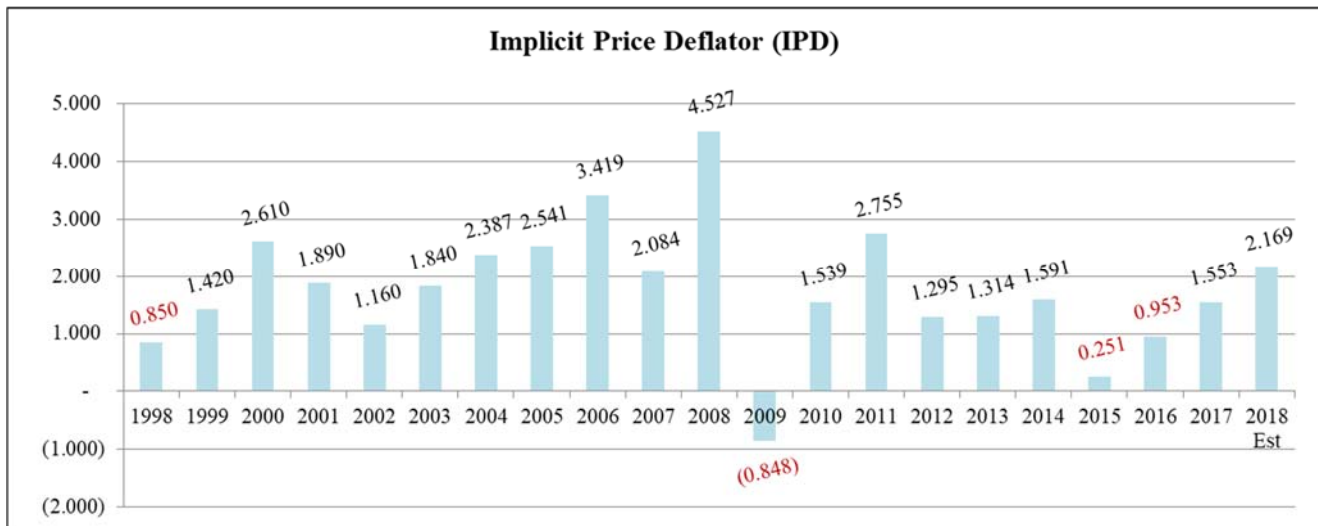
The following provides a summary of information technology programs and system upgrades that are included in the proposed 2019/2020 biennial budget:

Ref #	Proposed Information Technology Investments	2019		2020	
		1-Time	Ongoing	1-Time	Ongoing
503.0009	Expand Video Surveillance	-	-	20,000	-
503.0011	Server/Hardware Upgrades	30,000	-	-	6,000
502.0015	Computer Replacement	138,750	-	138,750	-
503.0028	New Permit System Evaluation	25,000	-	-	-
503.0029	SAN (Storage Area Network) Implementation	100,000	-	-	-
503.0030	Front Street O&M Facility Fiber Installation	25,000	-	-	-
Total - Information Technology Strategic Plan		\$ 318,750	\$ -	\$ 158,750	\$ 6,000

2019 PROPERTY TAX LEVY

Washington state law requires cities to hold a public hearing on possible increases in the property tax revenues to be held prior to the time the city levies the taxes. The hearing must be held in November in order to provide the County with the information by November 30. A public hearing has been scheduled for November 5 for this purpose. Adoption of the property tax levy ordinance is also scheduled for November 19.

Per state statute, the City is authorized to increase its property tax annually up to the lesser of Implicit Price Deflator (IPD) or one percent (1%). The IPD for 2019 property tax levy is 2.169%.



ANALYSIS

The following tables below provides a summary comparison of assessed value, city levy rate and city property tax levy and detailed calculation used for the City’s 2019 property tax levy amounts being considered for collection in 2019.

	2018	2019 Estimate (1% Increase)	Change	
			\$	%
Assessed Value	\$6,002,783,089	\$6,847,412,733	\$844,629,644	14.1%
City Levy Rate	\$1.1521	\$1.0384	-\$0.1137	-9.9%
City Property Tax Levy *	\$6,915,523	\$7,110,039	\$194,516	2.8%

* The City Property Tax Levy increase of 2.8% includes the 1% increase plus new construction, administrative refunds and increase in state-assessed property.

Tax Calculation Factor	Tax Levy
Base Levy Amount (Highest Lawful Regular Tax)	\$6,880,272
1% Increase	\$68,803
New Construction Estimate	\$92,124
Administrative Refunds	\$20,328
Subtotal	\$7,061,527
Increase from State-Assessed Property (2019 Estimate Based on 2018 Actual)	\$48,513
Total Preliminary 2019 Levy	\$7,110,039
2018 Preliminary Assessed Value for 2019 Levy	\$6,847,412,733
2019 Preliminary Levy Rate (Assumes 1% Increase)	\$1.0384
Levy Rate Calculation:	
2018 Preliminary Assessed Value	\$6,847,412,733
Divide by \$1,000	\$1,000
2018 AV Per \$1,000	\$6,847,413
2019 Preliminary Levy	\$7,110,039
Divide by 2018 AV Per \$1,000	\$6,847,413
2019 Preliminary Levy Rate per \$1,000 (Assumes 1% Increase)	\$1.0384

According to the Pierce County Assessor-Treasurer’s office, the City’s total assessed value for 2019 property tax collection is estimated to be \$6,847,412,733, which represents a 14.1% or \$844,629,644 increase from the City’s total assessed value for 2018 property tax collection of \$6,002,783,089.

The following below illustrates the impact of no increase and 1% increase to the average homeowner. The 2017 assessed valuation of the average single family residential home for 2018 property tax collection of \$285,483 increased by 12.4% to \$320,940.

	2018	2019 Est No Increase	Change from 2018		2019 Est	Change from 2018	
	1% Increase		\$	%	1% Increase	\$	%
AV Average Home	\$285,483	\$320,940	\$35,457	12.4%	\$320,940	\$35,457	12.4%
City Levy Rate	\$1.1521	\$1.0283	-\$0.1237	-10.7%	\$1.0384	-\$0.1137	-9.9%
City Property Tax Paid	\$328.89	\$330.02	\$1.13	0.3%	\$333.25	\$4.36	1.3%
Additional property tax paid by average homeowner with 1% increase compared to 0% increase =						\$3.22	

- Compared to 2018, under the no increase scenario, the property tax levy rate of \$1.0283 results in an additional \$1.13 property tax paid to the City, which is an increase of 0.3%.
- Compared to 2018, applying the 1% increase property tax levy rate of \$1.0384 results in an additional \$4.36 property tax paid to the City, which is an increase of 1.3%.
 - The additional property tax paid by the average homeowner with a 1% increase compared to 0% increase is \$3.22.

CITY COUNCIL OPTIONS & CONSIDERATIONS

The options the City Council may take regarding the 2019 property tax levy are:

- Option 1: Levy the property taxes without any increase.
- Option 2: Increase the property tax levy by 1% commensurate with the 2019/2020 biennial budget estimates. - RECOMMENDED

The City’s 2019 proposed budget includes an annual property tax increase of 1% as authorized by state statute. A 1% increase in property tax levy generates approximately \$68,803 in additional revenue for city services, or an additional \$3.22 per average homeowner in 2019 compared to 0% increase.

The preliminary 2019 property tax revenue estimate is \$7,110,039 and is based on the preliminary figures provided by Pierce County (plus 2018 increase in state-assessed property of \$48,513 used for 2019 estimate since 2019 figures is currently not available).

Since 2006, the City has enacted the 1% increase as authorized by state statute. The cumulative impact of not taking the 1% increase in 2019 over the 6-year period (2019 - 2024) is approximately \$423,000.

The following table provides details of options 1 and 2.

Factors	2018	2019 - Option 1 (no increase)	2019 - Option 2 (1.00%)
Base Levy Amount (Highest Lawful Regular Tax)	\$6,696,881	\$6,880,272	\$6,880,272
Increase	\$66,969	\$0	\$68,803
New Construction Estimate	\$67,909	\$92,124	\$92,124
Administrative Refunds	\$35,251	\$20,328	\$20,328
Increase from State-Assessed Property (2019 Estimate Based on 2018 Actual)	\$48,513	\$48,513	\$48,513
Total Property Tax Levy	\$6,915,523	\$7,041,237	\$7,110,039
Total Property Tax Levy % Increase from Base Levy Amount	3.26%	2.34%	3.34%
Assessed Value	\$6,002,783,089	\$6,847,412,733	\$6,847,412,733
Levy Rate Per \$1,000 AV	\$1.1521	\$1.0283	\$1.0384
City Tax Paid by Average Home Owner			
2017 Single Family Residential Home Value for 2017 Property Tax= \$285,483			
2018 Single Family Residential Home Value for 2019 Property Tax= \$320,940	\$328.89	\$330.02	\$333.25
City Tax Paid by Average Home Owner, Change from 2018 - \$	n/a	\$1.13	\$4.36
City Tax Paid by Average Home Owner, Change from 2018 - %	n/a	0.3%	1.3%

NEXT STEPS

November 13, 2018

- Review of 2019 Human Services Funding
- Review of 2019 Lodging Tax Recommendations
- Review of Fee Schedule Amendments
- Review Consolidation of Sewer Capital Funds
- Review Sewer Utility Surcharge Amendments
- Review of 2019/2020 Proposed Biennial Budget

November 19, 2018

- Adopt 2019 Human Services Funding
- Adopt 2019 Lodging Tax Allocations
- Adopt Fee Schedule Amendments
- Adopt Consolidation of Sewer Capital Funds
- Adopt Sewer Surcharge Amendments
- Adopt 2019 Property Tax Levy
- Adopt 2019/2020 Biennial Budget