



Long-Term Financial Plan

2010-2015

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City of Lakewood Long Term Financial Plan

Executive Summary

The City of Lakewood has lagged behind the downturn of the economy of the Puget Sound region. While other jurisdictions were facing major reductions in overall revenue during 2008 and 2009, the City of Lakewood saw a small amount of growth in 2008. The City also showed relative strength until the 3rd Quarter of 2009, when there began a decline in overall revenue to the City.

The first quarter of 2010 is showing a marked decrease in sales tax and other economic activity based revenues. Much of this decline can be tied to the large number of troops deployed to Iraq and Afghanistan from the Joint Base Lewis-McChord. These deployments have made a significant difference in the number of people frequenting shops and restaurants in Lakewood.

The City has a number of economic development initiatives in place that will help grow the revenue for needed services in the future. However, the City also faces a number of issues with cost inflators that will yield difficult budgeting decisions.

As a whole, it is the most likely financial scenario is that overall revenue growth will not be sufficient to handle the City's current level of services based on current methods of budgeting and operations. Changes may be necessary to ensure that revenues and expenditures are balanced. In addition, there are some areas of expenditure that will need to be addressed both in the short-run and in the long run. These areas represent significant risk to the City's current operational strategies, and failure to address them in a prompt manner could yield far larger problems in the future.

Among the challenges faced by the City are:

- Delayed economic development objectives due to the current recession
- Labor cost increases
- The cost of Medical Insurance benefits
- The continued upward cost pressure of energy and fuel
- The upward cost pressure of insurance and risk management
- Long term solutions for capital asset depreciation, maintenance and replacement
- Unfunded mandates from the state and federal level
- Finding ways to invest in future livability and sustain service levels for the City.

The overall financial condition based on current operations, strategies, and methodologies is challenging and highly dependent on the recovery of the general Puget Sound region economy as well as the economy of the country as a whole. It is by no means a strong picture, and will require careful prioritization of citizen needs and budgeting of the resources necessary to meet those needs.

City of Lakewood Long Term Financial Plan

Purpose

In 2008, the Lakewood City Council asked that the Finance staff investigate the long-term fiscal outlook for the City. That outlook was to include estimates of revenues and expenditures for a five year forecast window. In addition, the plan was to identify cost centers and point out structural deficiencies in the financial status of the City.

In 2010, the plan is being updated to include the known realities of the current economic downturn and its impact on the overall revenue projections. At the time of this report's modification the nation as a whole and the State of Washington have been in a recession and are technically in a slow recovery. The overall revenues for the City in most categories are down by 2-3% over the City's prior long-term trends.

Methodology

The financial plan includes projections of both revenues and expenditures for a five year period. It is designed to help policy makers narrow the wide range of choices of strategic and policy positions and to allow decisions to be made in light of the future fiscal implications of those decisions.

This document focuses on the General fund because the General Fund accounts for a high proportion of the discretionary expenditure and revenue for the City. Other funds are discussed as they pertain to long-range fiscal issues, but the majority of effort is focused upon the General Fund.

The plan is based on a series of assumptions about the economic conditions of the region, state, and country, as well as some assumptions about future cost increases. These assumptions are spelled in more detail in the relevant sections of the document.

Economic Environment

State of Washington

In March of 2008, the State Economic and Revenue Forecast Council made projections for 2008 and beyond. These projections are showed the state's overall economic activity slowing in 2008, but increasing again in 2009.

As it turns out, that was not an accurate forecast. The reality was that overall economic activity as measured by most widely accepted means such as Unemployment Rate, Personal Income, and Gross Output showed that the Washington State Economy shrank for the entire 2008 calendar year and those declines are continuing in 2009.

The State Economic and Revenue Forecast Council's latest projections from February 2010 predict positive economic growth statewide in 2010. However, job growth statewide will lag behind and even though there will be growth in personal income and

output measures, the unemployment rate throughout the state will remain higher than normal and will be slow to dissipate.

The current statewide forecast call for the following growth projections of major economic indicators.

YEAR	PERSONAL INCOME	INFLATION RATE	UNEMPLOYMENT RATE
2010	0.1%	1.0%	9.9%
2011	3.6%	1.6%	9.3%
2012	3.8%	1.8%	8.0%
2013	4.3%	1.8%	7.1%

The City of Lakewood

During the 3rd Quarter of 2009, the City of Lakewood saw its first significant and continued declines in sales tax revenues during the “Great Recession of 2007-2009” The City had prior been seeing small revenue growth (2008) and then static collections (1st half 2009) until finally there was a series of declines in sales tax revenue during the 2nd half of 2009.

The City took appropriate actions during the second half of 2009 to curtail expenditures by freezing positions and economizing operations. This was on top of a number of staff reductions in the transition between the 2007, 2008 and 2009 budgets because of forecasts of a tightening revenue situation.

For the 2010 budget, staffing and expenses were further reduced based on 2010 revenue forecasts that took into consideration the balance between the existing small decline in revenue and the prediction of a national economic recovery gaining traction in early 2010.

As revenue for the first few months of 2010 began to materialize, it became clear that the City was continuing a downward trend in economic activity, especially as seen by sales tax revenues and building permit revenues. The City subsequently has made adjustments to its 2010 expenditures to deal with this current situation.

Long term economic growth in Lakewood continues to hinge on the success of a number of current initiatives. Among them are the Tillicum/Woodbrook Sewer project and the redevelopment of the Pacific Highway corridor.

Current Financial Status

Long Term Debt

The city has very low debt. The only debt that the City has employed to date is

- LID Bonds in the amount of \$3.56M, which have a defined revenue source in the form of LID assessments on the properties within each LID.

- Loans from the Public Works Trust Funds in the amount of \$1.7M that are for the design and build-out of the Tillicum Sewer Project. This amount is the portion of the total \$7.840M in Public Works Trust Fund loans that the City has available for the Tillicum/American Lake Gardens sewer project.
- A privately held debt to a landowner for the purchase of a portion of 59th Street in the amount of \$873,000
- Leases for equipment for a total of approximately \$817,000 payable in installments until 2011.
- \$2.7M in Limited Tax General Obligation Bonds sold in the 1st quarter of 2009 to finance the City of Lakewood Police Station.

The City reapplied for a bond rating with Standard and Poor's in March 2009 in anticipation of the LTGO issue for financing of the Police Station. The rating issued for the City was AA-, which is a two step increase from the City's previous rating.

Overall debt of the City is approximately 2.6% of its statutory debt capacity. This has not changed, nor is it expected to change in 2010.

Long Term Assets

The City's Long-Term assets are chiefly tied to facilities and land ownership. The city owns a City Hall and several parks, and has a new Police Headquarters building that was completed in April, 2009.

Current Issues

There are a number of issues facing the City and impinging on its financial situation over the next few years. Each of these areas is investigated further in the following sections, but a synopsis of the main issues is given here. The main concept is that there are issues that are driving costs higher, while other factors are putting downward pressure on revenue streams, at least in the short term.

Inflationary Pressures

Fuel Costs

Fuel costs, and other energy related expenditures, are increasing much faster than the rate of inflation. For 2008, the City projected fuel expenses based on \$2.75 per gallon, and that rate was set while the rate was approximately \$2.50 per gallon. Currently, the cost of fuel is in excess of \$3.25 per gallon, and this represents a significant shock to the current year's expenditures as well as future budgets. In 2009, the cost of fuel has decreased somewhat, but its averaged increase is still higher than the overall rate of inflation. In May 2009, the average cost of a gallon of gasoline sits at \$2.50 per gallon.

Labor Costs

Labor costs represent the largest proportion of expenditure for the general fund. The details of expenditure patterns is outlined elsewhere in this document, but the overall issue of labor costs and their associated growth is a highly important issue with

developing a sustainable fiscal plan for the City. In many cases, there are external issues such as health insurance premiums that play a role in the labor cost issues.

Insurance/Risk Costs

Overall Risk Management issues are continuing to weigh on the City's fiscal plans. The rising rate of insurance premiums and the costs for doing risk mitigation are important issues for the City's short and medium-term future.

The city switched from one insurance pool (CIAW) to another (WCIA) for the 2009 fiscal year. The city made this choice knowing that the overall insurance cost would increase in the first few years, but based on projections that the risk management tools and processes provided by WCIA would offset this increase in outlying years. This outcome needs to be watched diligently over the next 3-5 years.

Unfunded Mandates

Unfunded mandates are another avenue through which flexibility in the City's overall financial strategy are challenged. Currently, the City is tracking mandates or proposed mandates in several areas that could have definite fiscal impacts. Among those issues are electronic records retention, the shoreline management act master plan that must be renewed. Other items that either are currently or have the potential to increase costs due to mandates are the public records disclosure requirements and the proposed rules to require certain levels of staffing at the municipal court.

Capital Maintenance, Depreciation and Replacement

Capital Items Depreciation Funds, such as fund 501 for equipment and vehicle replacement are not being adequately funded to fulfill all the demands of equipment replacement over the next five years. This is due to higher than predicted rates of usage for vehicles.

In 2004, The City set aside a sum of dollars in order to help with the sudden increase in fleet size from the start-up of the Police Department. This was designed to help with setting up a regular replacement cycle for police vehicles. Since then, however, there has been more rapid depreciation and replacement than projected, and the original inflation assumptions for the price of vehicles have been shown to be inadequate.

Road Maintenance

The City's ability to maintain its road infrastructure up to standards is becoming increasingly difficult. The revenue streams generally set aside for these activities tie heavily to real estate activity. As activity has decreased, the Real Estate Excise Tax revenue has decreased as well. This yields issues not only with current projects, but also with projects in the pipeline for the future.

Revenue Forecasts

Property Tax

Due to Initiative 747, and the legislative action that occurred once the Initiative was found to be unconstitutional, the collection of property tax for the City of Lakewood is limited to 1% increases, with new assessments allowed to increase the tax base at the appropriate assessed values. This puts a cap on collections so that growth beyond 1% per year is highly unlikely. In 2010, property tax represents approximately \$5.9M in general fund revenue, or about 18.1%. The further implication of this cap on increases to property tax collection means that percentage of General Fund Revenue that is represented by property tax will go down over time if other revenue sources increase at a higher rate than 1%.

Property Tax Revenue Per Year (1% per year increase)					
2010	2011	2012	2013	2014	2015
\$5.973M	\$6.033M	\$6.094M	\$6.154M	\$6.216M	\$6.278M

Sales Tax

General sales tax represents approximately \$9.1M in revenue for the City, or approximately 27.5% of the general fund revenue for 2010. Sales tax revenue is highly dependent on the general economic activity of the City, both in terms of cyclical expenditures, as well long term growth from economic expansion.

Because of this, there is no realistic way to forecast revenues this far in advance without giving a range of numbers based on difference scenarios. The following scenarios are used to give a variety of probable conditions; all based on underlying currents in the overall economy in the first half of 2010.

What is true however, that the General Fund is made up of three fundamental components: Sales Tax, Property Tax, and miscellaneous other taxes, fees and revenue. Based on the current 2010 weightings of the proportion of these components in the general fund, Sales tax accounts for 27.5%, Property Tax accounts for 18.1% and all other revenue accounts for 54.4% of the total fund. In order for overall revenue to increase by a specific percentage, Sales Tax and other revenues must grow at a much higher percentage.

Required Growth Rates for Targeted General Fund Revenue Increases					
Overall Target	5%	6%	7%	8%	9%
Property Tax	1%	1%	1%	1%	1%
Sales Tax + Other	5.84%	7.06%	8.27%	9.48%	10.69%

Utility Taxes and Franchise Fees

Utility and franchise fees make up another of the major areas of revenue for the City's general fund. Although the full revenue is split between the various street maintenance and capital funds as well as the general fund, a majority of the revenue is earmarked for

the general fund. Based on current conditions, increases of 3-5% in utility taxes and franchise fees are seen as sustainable for the future.

The following chart extrapolates utility tax revenues for the general fund, assuming constant percentage shares in the utility tax distribution to the general fund, the streets fund and the arterials fund.

Utility Tax & Franchise Fee Revenue – General Fund Portion						
Growth	2010	2011	2012	2013	2014	2015
3%	\$6.842	\$7.047M	\$7.259M	\$7.476M	\$7.701M	\$7.932M
5%		\$7.184M	\$7.543M	\$7.920M	\$8.316M	\$8.732M

License, Fees and Fines

Overall revenue to the City from licenses, fees, and fines has increased over the last few years. For the general fund, the overall increase from 2005 to 2007 averaged 18% per year. These increases are mainly in traffic, parking, and other non-criminal code offenses.

It is highly unlikely that these increases will continue in the future. For 2008, those items were budgeted for an increase of approximately 7%, and that was in line with previous yearly realized increases. Based on current conditions, it is likely that increases of 5-7% could be sustained. In addition, the overall inflation rate in 2009 has decreased and as such the overall fee increases due to inflationary pressures would not be as high as in the past.

During the 2010 fiscal year, the projected revenue from all these sources is \$7.368M

Fees, Fines, Licenses and Other – General Fund Portion						
Growth	2010	2011	2012	2013	2014	2015
1%	\$7.368M	\$7.368M	\$7.442M	\$7.516M	\$7.592M	\$7.667M
5%		\$7.368M	\$7.737M	\$8.124M	\$8.53M	\$8.956M
7%		\$7.368M	\$7.884M	\$8.436M	\$9.026M	\$9.658M

These expected increases have already been taken into account in the revenue scenarios presented in the following sections.

Scenarios

The following scenarios represent a range of possible outcomes for the next five years. In order, scenario A is the most likely scenario based on the consensus view of economists in the second quarter of 2009; B is represents a situation with stronger economic growth; C represents weaker economic growth. In each revenue scenario, the expected increase in Property Tax is 1% per year. These scenarios also assume that there will be no change to tax rates over the entirety of the outlook horizon.

The expenditures that are shown for comparison are based on a baseline assumption of moving the current activities of the City forward with no programmatic changes. This

would be done with the following set of assumptions for expenditure growth based on inflationary expectations in the various categories of expenditures for the City:

Expected Inflation by Category of Expenditure

	2011	2012	2013	2014	2015
Salaries and Wages	3%	3%	3%	3%	3%
Medical Insurance	10%	10%	10%	10%	10%
Other Personnel Benefits	3%	3%	3%	3%	3%
Debt Service	0%	0%	0%	0%	0%
All Other	3%	3%	3%	3%	3%

The personnel benefits column is increased in 2010 by 3% and also by a flat \$200,000 which represents the first explicit budgeting of the deferred compensation match that the City approved for employees in February of 2009.

Scenario A – Coming out of Recession in 2010, Reduced Growth thereafter. The highest likelihood scenario

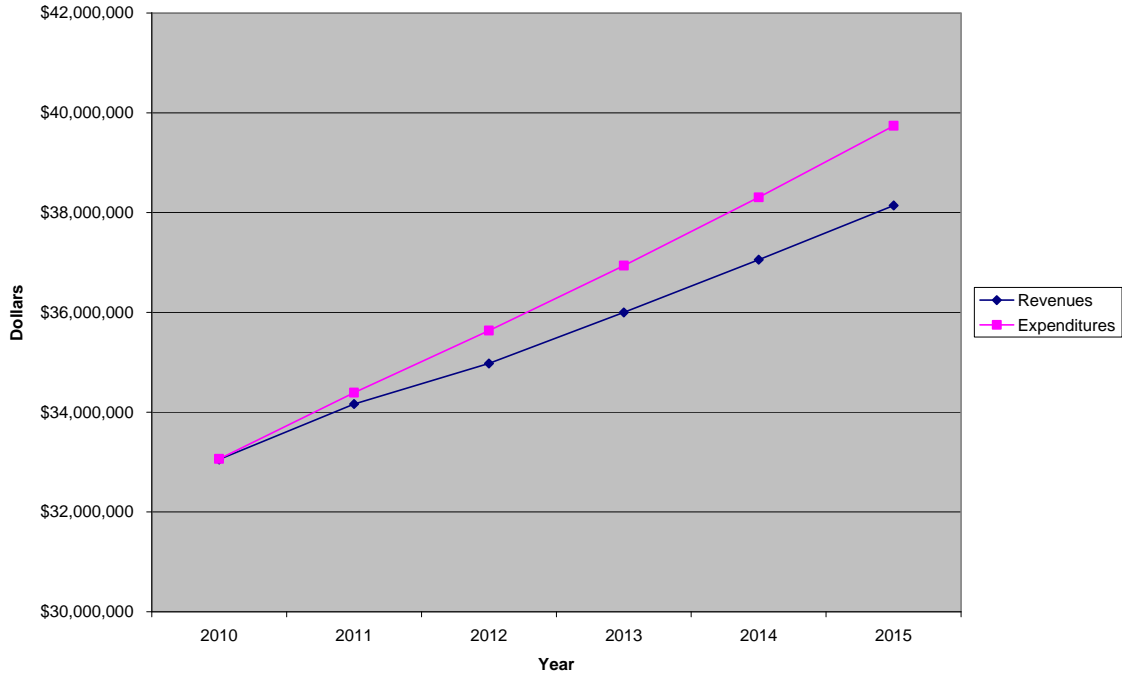
This scenario is indicative of the projections by the State Economic Forecast Council for sales tax revenues statewide. Based upon recent history, this is conservative for a municipality such as Lakewood.

In this scenario, the Sales Tax growth rate in 2011 is 1.0%, for 2012 it is 2% and for 2012 and beyond, it is 4%. This is based upon the fact that the overall economic recovery will be weak for at least an additional year before returning to baseline historic growth.

Scenario A assumes a 1% annual increase in property tax revenue, and a 3% annual increase in all other revenue sources.

Sales Tax Revenue Per Year (Scenario A)					
2010	2011	2012	2013	2014	2015
\$9.100M	\$9.191M	9.375M	\$9.750M	\$10.140M	\$10.545M

Revenue Scenario A



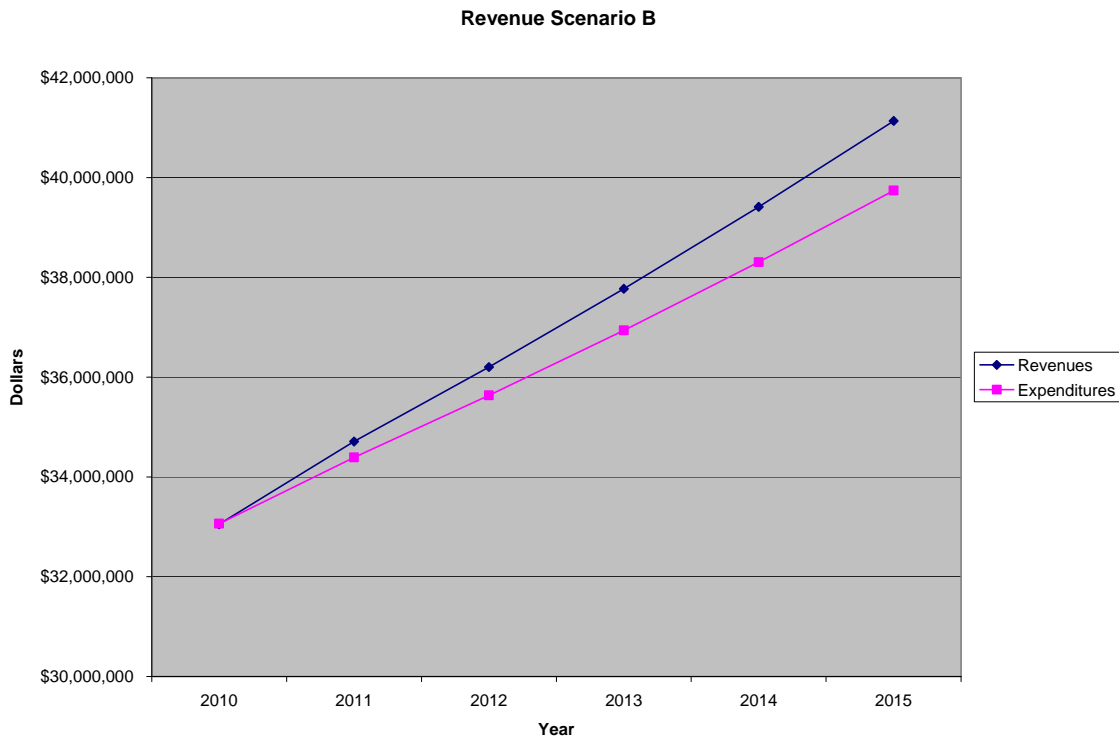
Under this scenario, if the City takes no fiscal action, there will be budget deficits each year in the forecast horizon. It is recommended that the 2011-2012 budget process identify fiscal action necessary to close these deficits.

Scenario B – Faster recovery and growth, a rosy scenario

This scenario represents a scenario in which sales tax growth for 2011 is 3% and continues to build into the future. Strong recovery is felt in 2012 and beyond with growth of 5% in sales tax revenues.

Scenario B assumes a 1% annual increase in property tax revenue, and a 5% annual increase in all other revenue sources.

Sales Tax Revenue Per Year (Scenario B)					
2010	2011	2012	2013	2014	2015
\$9.100M	\$9.373M	\$9.842M	\$10.334M	\$10.85M	\$11.393M



Under this scenario, there is a small surplus starting in 2011, but surpluses begin to grow in 2012 and beyond.

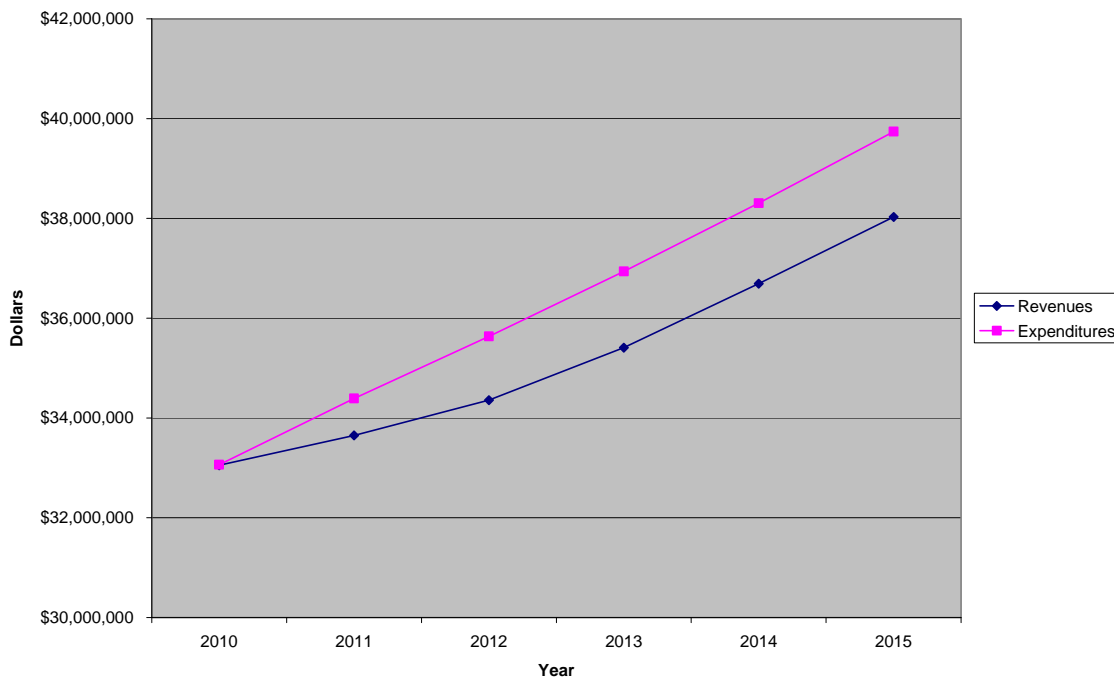
Scenario C – Slower recovery and growth

This scenario represents a situation where there is long term downturn in the local economy and there is delayed and slow recovery. This scenario assumes that the State of Washington economy as a whole will recover slower than the current consensus for National recovery.

Under this scenario, the growth rate for sales tax is 0% in 2011, 1% in 2012, 3% in 2013 and 5% in 2014 and beyond.

Sales Tax Revenue Per Year (Scenario C)					
2010	2011	2012	2013	2014	2015
\$9.1M	\$9.1M	\$9.191M	\$9.467M	\$9.94M	\$10.437M

Revenue Scenario C



This scenario forecasts significant budget deficits of over \$1,000,000 per year if no changes to expenditure policies are made.

Expenditure Forecasts

Employee Salaries and Benefits

Salaries

The financial outlook for employee salaries is based upon the fiscal year 2010 budget. General Fund expenditures on salaries excluding benefits for 2010 are projected to be more than 46% of the total expenditure in that fund. Including benefits, the total expenditure on employee related costs is projected to be 61% of the general fund. That percentage is in line with the 60%-65% that has been the historical trend. In 2009, those percentages were lower due to the fact that the General Fund in 2009 contributed \$2.5M to the Capital Improvement Program Fund for the construction of the Police Department Headquarters.

There are currently three unions representing employees of the City, representing approximately 85% of the entire workforce. The Lakewood Police Independent Guild (LPIG) represents the commissioned law enforcement officers, up to and including the rank of Sergeant. A local affiliate of the Teamsters represents the Community Service Officers of the Police Department. Finally, in 2009 the majority of the remaining eligible employees formed the "City of Lakewood Employees" (COLE) to organize a bargaining unit.

The LPIG and the COLE will negotiate contracts in 2010. The LPIG will renegotiate an expiring contract and the COLE will negotiate a contract for the first time since certifying a new union in 2009. The Community Service Officers will negotiate the COLA provision of their contract for 2011 toward the end of 2010.

The current structure for salaries and salary increases for those employees who are not represented by a collective bargaining agency is that there is the possibility of a COLA adjustment and a Merit Increase annually. The amount of these adjustments is based upon the amounts approved by the City Council during the budget process. For 2010, the COLA amount for non-represented staff was budgeted at an average 0.0% of the total employee salary base and the Merit Increase range was set at 1.5-4.5%.

Based on current inflation rates and new forecasts for inflation, the assumed employee costs, not including changes to staffing levels would be as summarized in the table below. The amounts are not separated into union and non-union as in the past because of the current certification process making it impossible to know how many positions will be in each category

Salary Costs Per Year (Inflation assumption in parenthesis)						
	2010	2011 (3%)	2012(3%)	2013 (3%)	2014 (3%)	2015 (3%)
Total	\$16.705M	\$17.206M	\$17.722M	\$18.254M	\$18.801M	\$19.365M

Benefits

Of any single expenditure area, Medical Insurance Benefit costs are increasing at a higher percentage rate than any other major category of expenditure for the City. In the past, the City has dealt with the upward cost pressure by both increasing its budgeted expenditures as well as changing health insurance plans. Preliminary discussion during the deliberations for the 2009 budget also brought forward ideas related to increasing the cost sharing percentage for employees.

Since 2004, the average increase in benefit costs to the City has been approximately 9% per year.

Benefit Costs Per Year						
	2010	2011	2012	2013	2014	2015
Total	\$5.500M	\$5.868M	\$6.267M	\$6.701M	\$7.172M	\$7.685M

Other benefit costs that are increasing rapidly include the Labor and Industries premiums for Worker's Compensation Insurance. These premiums are determined by both the overall environment and the specific claims history of the City.

The City of Lakewood has taken steps in 2010 to try to mitigate these costs. The City is now internally insuring the salary replacement portion of the Worker's Compensation Insurance program. Instead of paying the State of Washington an insurance premium to replace the salary of an injured employee, the City will continue to pay that employee directly for incidents that qualify under the Worker's Compensation program.

Similar organizations have yielded 10-15% annual savings in the overall cost of the Worker's Compensation program utilizing a self-insurance system. The overall effect of this change is not yet known because the program is less than six months old.

There is a large amount of uncertainty in the pricing of health insurance premiums due to the recent passage of the Healthcare Reform laws. This area is one that is critical to the fiscal well being of the City, and will garner additional scrutiny by staff as the costs and implications of health insurance become more evident in the wake of changing legislation.

Operational Goods and Services

The overall inflation rate for the United States has been dramatically unstable in the last three years. Price changes have been swayed by shocks in the energy sector to create high inflation, and then the recession has seen a wane in the CPI and PPI numbers due to decreased aggregate demand.

Currently, as of May 2010, the overall CPI rate in the Puget Sound region is hovering around 1%-2%. The market forces will cause these numbers to increase as the economic recovery gains traction. In addition, the types of products and services purchased by the City many times have a very different core inflation rate than the market basket used by the aggregate CPI and PPI indices.

Office Supplies

The City's expenditures on office supplies, furniture, and other supplies related to day-to-day operations of the City's functions have increased markedly each year. This fluctuation can be chiefly attributed to startup costs for the new police department. However, over the past two years, expenditures for office supplies increased by approximately 5%, at a time when overall operations of the City has remained a fairly constant size. In 2010, the expenditures on Supplies through the first quarter is approximately 3% lower than the equivalent period in 2009.

Fuel

The steady increase in the cost of gasoline and diesel fuels for the City's vehicle is producing substantial pressure to increasing operational costs. These costs are most obvious in the Police Department, but have a large effect on the Court Department, Parks Department and Community Development as well.

The City budgeted fuel for 2010 based on an annual estimate of \$2.75 per gallon. The City is currently on track with this estimate, but recent developments in the 2nd quarter of 2010 have brought new concerns to bear. The April-May spike of gasoline prices into the \$3.00 per gallon range is worrisome, although there is consensus among forecasters that this may be a temporary issue and gasoline prices nationwide will moderated prior to the summer.

The nature of fuel cost increases is that they are borne by the City in indirect ways as well. The city is expecting increases in its contract costs for street maintenance and sweeping, delivery services, and other supplies because of pass-through costs that the City pays its suppliers.

Insurance Premiums/Risk Management

There has been acceleration in the cost of insurance premiums for the City. This is also true of all other governmental agencies over the last decade. The premium increases for both property and liability insurance is shown below. From 2003 to 2007, the overall premium increased by 165%. Even after the police force was fully in place, the increase from 2005 to 2007 has been approximately 19% per year.

Actual Insurance Premium						
	2005	2006	2007	2008*	2009	2010 (est)
Premium	\$215,972	\$264,514	\$298,340	\$154,897	\$359,230	\$409,000

In 2008-2009, the City changed its membership in insurance pools from Cities Insurance Authority of Washington (CIAW) to Washington Cities Insurance Agency (WCIA). This change yielded a one time savings because of the difference in the timing of the premiums due to the two pools.

While the City has undertaken many steps to decelerate the growth in premiums, the overall outlook is that it will only slow down the increases in premiums. It is highly

unlikely that overall conditions will make premiums decrease for the City of Lakewood or any other municipality.

Fixed Assets

Depreciation and Replacement Funds

Capital Items Depreciation Funds, such as fund 501 for equipment and vehicle replacement are not being adequately funded to fulfill all the demands of equipment replacement over the next five years. This is due to higher than predicted rates of usage for vehicles. In 2004, The City set aside a sum of dollars in order to help with the sudden increase in fleet size from the start-up of the Police Department. This was designed to help with setting up a regular replacement cycle for police vehicles.

Since then, two factors have increased the annual depreciation costs: mileage per vehicle each year is higher than predicted, and the number of vehicles needing early replacement is higher than predicted. In addition, cost saving measures have yielded reductions in estimates for inflation which have not held true; the hope was that additional cost savings could be uncovered in the future for fleet replacement so that the replacement fund could be reduced. Combined, the higher than expected costs and lower than needed replacement rate is creating a situation where the funds being held in reserve in the equipment replacement fund will not be adequate to cover needed replacements in 2011 and 2012, unless the fund is depleted to levels lower than what would be needed for future sustainability.

The following table shows the anticipated needs in the fund, based on the depreciation schedule for the vehicles in the City’s overall fleet. These amounts have been adjusted for a new program that the City undertook in 2010 to refurbish vehicles instead of replacing them. In this program the existing vehicle is given a completely new mechanical drivetrain and worn interior components are replaced. This is done at a savings compared to replacing the entire vehicle. However, even this program may not be adequate to fully cover anticipated shortfalls in the Vehicle Replacement Fund.

Vehicle/Equipment Depreciation Funds				
	2010	2011	2012	2013
Replacement Vehicles	30	25	31	9
Earmarked to date	777,380	602,514	750,874	360,314
Anticipated Expenses	872,000	850,000	1,040,000	405,000
Net	(94,620)	(247,486)	(289,126)	(44,686)

The negative net amounts are the needed makeup dollars to fully replace all the vehicles each year based upon a 6% inflation factor for vehicles, which is the average inflation for the City’s vehicle purchases over the past 3 years.

The City faces this same issue with additional maintenance items. The City Hall maintenance fund is lower than projected replacement costs for major systems over the life span of the building, and the Road Maintenance fund is currently spending down reserves for the annual maintenance of the streets.

Road Maintenance

The City of Lakewood faces a challenge in the maintenance of its road infrastructure. While previously the street maintenance fund was able to meet the overall needs of the City, the current status of the street maintenance fund is that the fund is projected to need more than the projected income in order to preserve the roadways at their current standard, rather than improving them. Revenue estimates are based upon an assumption of 6% growth in the overall revenues for the Street Maintenance Fund (Fund 101).

The City has been dropping its fund balance in the Street Fund over the past few years. This fund will no longer be able to do so in 2010, as all funds will be depleted. The City should investigate additional funding sources for the street maintenance fund.

Street Maintenance, Operations and Pavement Preservation Projections (\$Millions)					
	2011	2012	2013	2014	
Revenue (7%)	\$2.465	\$2.638	\$2.822	\$3.020	
Revenue (5%)	\$2.374	\$2.492	\$2.617	\$2.748	
Fund Bal Reduction	\$0.000	\$0.000	\$0.000	\$0.000	
Expenses	\$3.109	\$3.296	\$3.493	\$3.703	
Net (7% Rev Growth)	(\$0.644)	(\$0.658)	(\$0.671)	(\$0.683)	
Net (5% Rev Growth)	(\$0.735)	(\$0.804)	(\$0.876)	(\$0.955)	

The City has options that would cover the projected deficits in the Street Maintenance Fund. First, there are options related to expense mitigation. The largest of these options is the continued disuse of the Pierce County road maintenance department in favor of in-house services. This change has the potential a large savings to the City.

The second is the introduction of a Transportation Benefit District program as authorized by the Legislature in 2008. This program enhances revenue to the City for the sole purpose of road maintenance and construction, and would go a long way towards bridging the gap between expenditures and revenues in the Streets Maintenance fund. Preliminary estimates are that the Transportation Benefit District would generate \$900,000 to \$1,000,000 annually for road maintenance and construction.

APPENDIX A

RAW DATA FROM PROJECTIONS

Revenue and Expenditure Projections

	2010	2011	2012	2013	2014	2015
Revenue A	\$33,051,341	\$34,166,412	\$34,978,830	\$36,000,072	\$37,054,483	\$38,143,195
Revenue B	\$33,051,341	\$34,709,980	\$36,204,051	\$37,770,412	\$39,412,653	\$41,134,545
Revenue C	\$33,051,341	\$33,650,412	\$34,357,260	\$35,411,292	\$36,692,320	\$38,027,637

	2010	2011	2012	2013	2014	2015
Expenditures	\$33,063,546	\$34,391,074	\$35,634,497	\$36,937,553	\$38,304,263	\$39,738,994