

# *Popular Annual Financial Report*

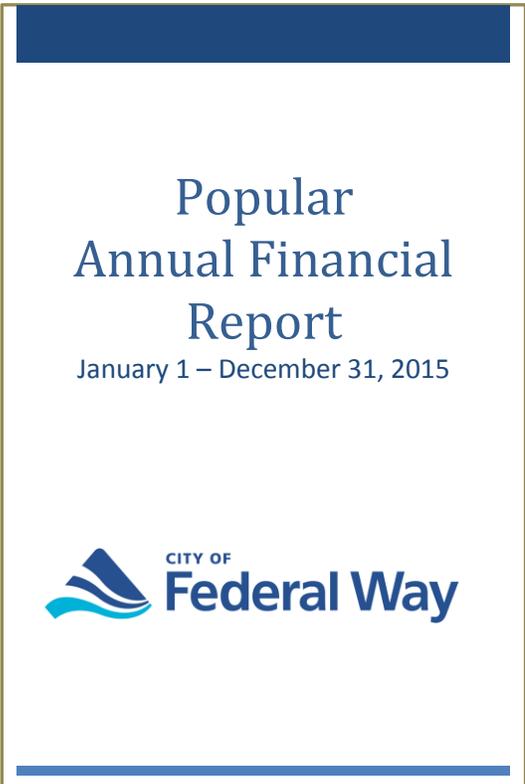


## **City of Federal Way Washington**

*For the year ended December 31, 2015*

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**VISION**

Federal Way is a community known for its cultural diversity, attractive parks, safe neighborhoods, and vibrant business centers.

**MISSION**

The City of Federal Way is responsive, innovative and fiscally responsible in delivering quality services, promoting economic development, improving infrastructure, and managing growth.

**GOALS**

- Integrate the public safety strategy into all facets of City operations, building on a strong community-based approach.
- Create a multi-use urban city center that is pedestrian friendly, linked to neighborhoods and parks, and services as the social and economic hub of the City.
- Establish Federal Way as an economic leader and job center in South King County by attracting a regional market for high quality office and retail businesses.
- Maintain the capital facilities plan and provide financing options for transportation and surface water improvements, parks, recreation, cultural arts and public facilities.
- Ensure a responsive service culture within the city organization where employees listen carefully, treat citizens and each other respectfully and solve problems creatively, efficiently, and proactively.
- Position Federal Way as a regional leader by working collaboratively with other local and regional jurisdictions in order to leverage resources.



June 30, 2016

To Council, and the  
Citizens of City of Federal Way:

It is our pleasure to present to you the 2015 City of Federal Way Popular Annual Financial Report (PAFR). This is the City's second PAFR. It is an easy-to-read version of the City's Comprehensive Annual Financial Report (CAFR) that is published on an annual basis. CAFR is a detailed account of the financial activities of the City prepared in accordance with Generally Accepted Accounting Principles (GAAP) and audited by the Washington State Auditor's Office (WSAO). A copy of CAFR is available



Government Finance Officers Association

**Certificate of  
Achievement  
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Presented to  
**City of Federal Way  
Washington**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**December 31, 2014**

*Jeffrey R. Green*  
Executive Director/CEO

on City's website at [www.cityoffederalway.com](http://www.cityoffederalway.com).

The City received the "Certificate of Achievement for Excellence in Financial Reporting" award for its 2014 CAFR. The 2015 CAFR has been submitted to Government Finance Officers Association of United States and Canada (GFOA) for review and consideration for the award to attest to its continuing strive to maintain the highest best practices in financial reporting and presentation. The award is good for only one year and the City has received this award every year since 1991. The award is given by the GFOA to government entities that meet the rigorous financial reporting guidelines.

This PAFR is designed to provide citizens with an overview of the City's revenues, expenditures, and some general information in a more simplified way than the CAFR. The financial information included is from the audited CAFR, but the report itself is not required to be audited by WSAO. This report is another opportunity to share the City's financial information with its citizens and to let one know how the City is doing financially. This report, the award winning CAFR, and the award winning budget presentation are clear testimony to the City's commitment to high quality financial reporting and genuine concern for citizen engagement.

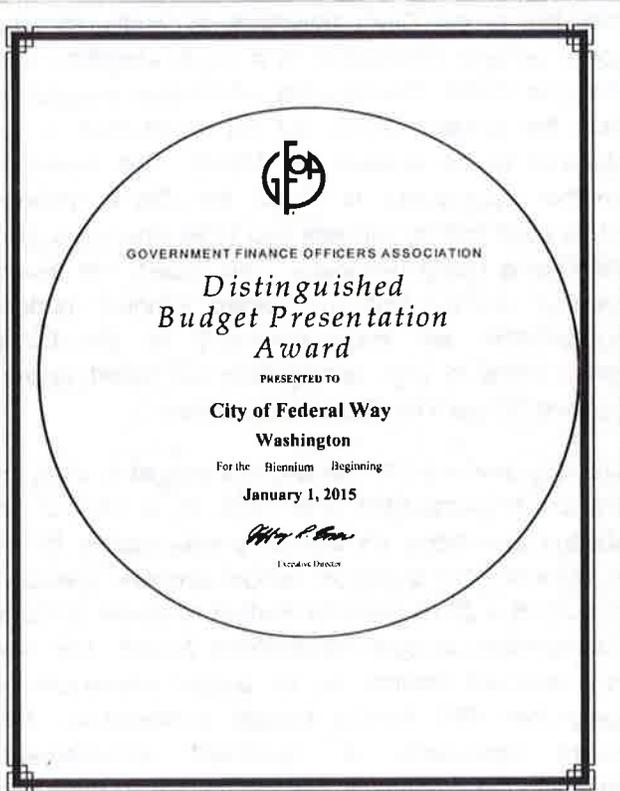
The City produced its first biennial budget in 1996 for the fiscal years 1997 and 1998 as a part of an attempt to improve it's efficiency with regards to the amount of time spent on budget process annually. The 2015 – 2016 Biennial Budget received GFOA's Distinguished Budget Presentation Award. The City has received awards on its budget presentations since the 1990 Annual Budget presentation. The award represents a significant achievement, reflecting the commitment of the governing body and the staff to meeting the highest principles in government budgeting. In order to receive this award, a government unit must publish a budget document that meets program criteria as a policy document, as an operating guide, as a financial plan, and as a communication device. The award is valid for a period of only two years covering the budget periods. The City plans to submit its 2017-2018 Biennial Budget for review again.

Local economic condition for the City of Federal Way looks very good. The license permit for new constructions have increased. The sales tax revenue is up, although not as high as pre-recession, none-

the-less, it is growing from the lowest we saw during the recession.

Through the sacrifices of the past, the fund balance in the City's General Fund was at the required level at the end of 2015 providing the City a reasonable opportunity to evaluate its mission and objectives. The City will continue to align its resources to meet long-term goals and the immediate needs of the community. The City will also continue to find innovative ways to reach its goals through collaboration with other willing parties without sacrificing the safety of its citizens..

The City has also taken several steps in 2015 to



enhance the economic viability and sustainability of the City, positioning the City and its residents for a better tomorrow. The following are some of the initiatives:

- The new Town Square Park construction started in 2015; it was officially open in July 2016. As an appealing activity destination it will bring more people to downtown and increase the sales tax revenue in downtown area.
- Performing Arts and Event Center. After many months of consultations and studies the City

began construction of its Performing Arts and Event Center in the downtown hoping for it to generate other businesses moving to the downtown area, creating more jobs and sales tax revenues. Its downtown location is expected to generate additional business developments, creating more jobs and sales tax revenues.

Federal Way can't wait, the City is on the move and we hope you will join us to raise our city to a higher level.

Thank you for your interest in the City of Federal Way and financial operation and performance. As always we encourage readers to send questions, feedback, or comments about this report (PAFR) to the Finance Director at [ade.ariwoola@cityoffederalway.com](mailto:ade.ariwoola@cityoffederalway.com).

Sincerely,

Jim Ferrell, Mayor



# ABOUT THE CITY

## ELECTED OFFICIALS

The seven-member City Council is elected at large and members serve four-year terms. The Mayor is elected at large to serve four-year terms. The Mayor is the Chairman of the Council and the presiding member at Council meetings, The Mayor has an equal vote with other Council members.

Mayor Jim Ferrell            December 31, 2017  
[Jim.Ferrell@cityoffederalway.com](mailto:Jim.Ferrell@cityoffederalway.com)

The current Council members are listed below in position order:

<u>Official</u>	<u>End of Term</u>
<u>Position 1</u> Lydia Assefa-Dawson	December 31, 2019
<a href="mailto:Lydia.Assefa-Dawson@cityoffederalway.com">Lydia.Assefa-Dawson@cityoffederalway.com</a>	

<u>Position 2</u> Kelly Maloney	December 31, 2017
<a href="mailto:kelly.maloney@cityoffederalway.com">kelly.maloney@cityoffederalway.com</a>	

<u>Position 3</u> Susan Honda	December 31, 2019
<a href="mailto:susan.honda@cityoffederalway.com">susan.honda@cityoffederalway.com</a>	

<u>Position 4</u> Jeanne Burbidge	December 31, 2017
<a href="mailto:jeanne.burbidge@cityoffederalway.com">jeanne.burbidge@cityoffederalway.com</a>	

<u>Position 5</u> Mark Koppang	December 31, 2019
<a href="mailto:Mark.koppang@cityoffederalway.com">Mark.koppang@cityoffederalway.com</a>	

<u>Position 6</u> Martin A. Moore	December 31, 2017
<a href="mailto:Martin.Moore@cityoffederalway.com">Martin.Moore@cityoffederalway.com</a>	

<u>Position 7</u> Dini Duclos	December 31, 2019
<a href="mailto:dini.duclos@cityoffederalway.com">dini.duclos@cityoffederalway.com</a>	

The City Council meets every first and third Tuesday of every month at 7:00 pm in the City Hall. Federal Way City Council meetings are open to the public. The Council meeting Agendas and Minutes are available on the City's website under the City Council. The video recording of the meetings are

televised on the public channel and a copy of it may be viewed on line at [www.cityoffederalway.com](http://www.cityoffederalway.com).

Councilmember Koppang replaced Councilmember Bob Celski in January 2016.

In addition to the elected legislative branch, the citizens of Federal Way also have the elected judiciary to preside over its municipal courts. The following are the elected judges that preside over the municipal courts of the city of Federal Way:

<u>Official</u>	<u>Beg. Of Term</u>
• Judge David Larson	March 3, 2008
• Judge Rebecca Robertson	January 1, 2010

## APPOINTED OFFICIALS

Mayor is elected by the citizens to execute Council policies and provide administrative direction to the city departments. Department directors are appointed by the City Mayor and subject to the Council's approval. The following is the list of the current City appointed officials in alphabetical order by department after the Chief of Staff:

<u>Official</u>	<u>Title</u>
Brian Wilson	Chief of Staff
Amy Jo Pearsall	City Attorney
Michael Morales	Community Dev. Director
Ade Ariwoola	Finance Director
Jean Stanley	Human Resources Manager
Andy Hwang	Police Chief
John Hutton	Parks & Recreation Director
Marwan Salloum	Public Works Director
Theresa Yvonne	PAEC Executive Director
Will Appleton	Dep. PW/PAEC Project Dir.

## PROFILE

The City of Federal Way was incorporated in February 1990. Federal Way is the ninth largest city in Washington State encompassing an area of 21.5 square miles south of Seattle on the Interstate 5. Federal Way has grown from a population of 89,540 in 2010 to 93,425 in 2015.

Federal Way is a non-charter code city, operating under Section 35A of the Revised Code of Washington. It had a Council/City Manager form of

The City of Federal Way is located in the western part of Washington, south of Seattle. Its major industries include lumber products, healthcare, government, retail, and amusement park. It is home to one of the largest lumber companies in the country – Weyerhaeuser Company; employing more than 1,200 people and having an assessed value of more than \$120 million.



government until November 2010, when the citizens elected to change their form of government to a Mayor/Council form of government. The council is composed of seven councilors elected at large to four-year terms on a non-partisan ballot and are elected at-large. Members of the City Council are responsible for establishing the general direction and policies for the City and for providing the resources necessary to carry out those policies. As the City's chief administrator, the City Mayor is responsible for carrying out the policy and direction set by the City Council. This includes the enforcement of laws and ordinances, the execution of contracts and agreements, and maintenance of peace and order in the City.

The City of Federal Way provides a full range of municipal services, including police, planning and zoning, street maintenance and construction, parks and recreation, and general administrative services. The City operates enterprise funds for storm-water management.

According to the deptofnumbers.com, Washington State had more than 200,000 people unemployed as of the end of 2015 resulting in a 5.8% state unemployment rate compared to the national rate of 5.0%. As of the end of May 2016 the national unemployment rate has further declined to 4.7% and the State of Washington

remained the same at 5.8%.

As of the end of April 2016 Bureau of Labor Statistics reported a 4.6% unemployment rate for Bellevue-Tacoma-Seattle compared to a 4.3% for a similar time in 2015.

As an urban city, Federal Way has an inventory of parks for the enjoyment of its citizens that rivals any community. We have neighborhood parks amounting to over 130 Acres of land. They include:

1. Adelaide Park is located on 30619 16<sup>th</sup> Avenue SW with Natural, Picnic, and Play areas and a Walking Trail on 6.7 Acres of land.
2. Alderbrook Park is located on 32730 17<sup>th</sup> Avenue SW with Natural, Picnic, and Play areas and walking Trail on 25.1 Acres of land.
3. Alderdale Park is located on 2700 SW 340<sup>th</sup> Place with Picnic and Play areas and Walking Trail on 2 Acres of land.
4. Cedar Grove Park is located on 2200 S 333<sup>rd</sup> Street with Natural, Picnic, and Play areas and Walking Trail on 2.6 Acres of land.

5. Coronado Park is located on 2501 SW 349<sup>th</sup> Place with Basketball court, Picnic, and Play areas on 1.2 Acres of land.
6. Dash Point Highlands Park is located on 5300 SW 324<sup>th</sup> Place with Natural, Picnic, and Play areas on 5 Acres of land.
7. English Gardens Park is located on 1210 SW 333<sup>rd</sup> Street with Natural, Picnic, and Play areas and Walking Trail on 3.4 Acres of land.
8. Heritage Woods Park is located on 28159 S 24<sup>th</sup> Place with Picnic, Play areas and Walking Trail on 4 Acres of land.
9. Lake Grove Park is located on 833 SW 308<sup>th</sup> Street with Basketball Court, Natural, Picnic, and Play areas and a Walking Trail on 4.8 Acres of land.
10. Lake Kilarney Park is located on 34902 Weyerhaeuser Way S with Natural, Picnic areas and a Walking Trail on 10 Acres of land.
11. Laurelwood Park is located on 2301 S 292<sup>nd</sup> Street with a Basketball Court, Softball Field, Natural and Picnic areas and a Walking Trail on 19.4 Acres of land.
12. Madrona Park is located on 1508 SW 356<sup>th</sup> street with Natural, Picnic, and Play areas and a Walking Trail on 19.4 Acres of Land.
13. Mirror Lake Park is located on 915 S 315<sup>th</sup> Street with Natural, Picnic and Play areas and a Walking Trail on 3.4 Acres of land.
14. Olympic view Park is located on 29<sup>th</sup> Avenue SW and 330<sup>th</sup> with Natural, Picnic, and Play areas and a Walking Trail on 9.8 Acres of land.
15. Palisades Park is located on 5039 Dash Point Road with Basketball Court, Picnic, and Play areas and a Walking Trail on 4.5 Acres of land.
16. 312<sup>th</sup> Sport court is located on SW 312<sup>th</sup> and 11<sup>th</sup> Avenue SW with Basketball, and Tennis Court and Pickleball on 2 Acres of land.
17. Wedgewood Park is located on 3913 SW 337<sup>th</sup> Street with Natural, Picnic, and Play areas and a Walking Trail on 3.09 Acres of land.
18. Wildwood Park is located on 2315 S 300<sup>th</sup> Street with Natural, Picnic, and Play areas and a Walking Trail on 2.3 Acres of land.
19. Winco Park is located on SW Campus Drive with Natural Area on 1.6 Acres of land.
20. Town Square Park is located on 31620 20<sup>th</sup> Avenue South with children's play area, water activities, walking trail and concert area on 8 Acres of land. It is the City's new addition and was opened in 2016.



# ABOUT THE PAFR

Our Popular Annual Financial Report (PAFR) is a supplementary financial report in a summarized format. The PAFR is designed to meet the needs of interested parties who prefer a less detailed overview of the City's activities, and who need information on particular areas of the City's business. While the principal source for PAFR is the audited Comprehensive Annual Financial Report (CAFR), the PAFR itself is not audited, and does not include all details and disclosure necessary for presentation according to Generally Accepted Accounting Principles (GAAP).

This report focuses ONLY on the primary government, which is composed of governmental funds (including General Fund) and its business-type basic reports (Statement of Net Assets, and Statement of Activities) are presented, and through these reports users can access the City's overall financial condition and its operational accountability that is to answer questions like, "were current year revenues sufficient to fund current year's operation?" and "did the City's financial condition improve or worsen at the end of the year in question?". Evaluation regarding fiscal accountability and stewardship however are better addressed by fund-level financial reports presented in the CAFR. This year's CAFR is available online at the City's website at: [www.cityoggederalway.com.cafr](http://www.cityoggederalway.com.cafr)

## GOVERNMENTAL ACCOUNTING TERMS AND CONCEPTS

**Government-wide reporting** provides an aggregate view of the City's financial activities by consolidating all of its governmental and business-type activities. Traditional governmental fund statements are converted to full accrual mainly by including all long-term debt and capital assets.

**Statement of Net Position** reports the City's assets and liabilities with the difference reported as "net position" (Similar to the traditional "balance sheet").

**Statement of Activities** reports on the City's total expenses and shows the extent of funding from program revenues and from general revenues.

**Change in Net Position** represents the increase or decrease in net position over the previous year.

**Net position (Assets minus Liabilities)** represents the City's equity interest in the assets it employs in providing services to its citizens.

**Assets** are resources with present service capacity that the City controls. For example, cash from taxes paid by citizens is an asset that can be put to use to provide public safety.

**Accrual basis** of accounting is where financial transactions or events are recorded in the period they are incurred rather than at the same time when cash is received or disbursed.

**Current assets** include cash or near cash items that can be used to liquidate liabilities due within a year.

**Capital assets** are tangible or intangible nonfinancial assets that have a useful life of more than one year and are used in providing services and for City administration.

**Liabilities** are present obligations of the City to sacrifice resources that it has little or no discretion to avoid such as the amounts the City owes to creditors.

**Current liabilities** are liabilities due within one year.

**Net investment in capital assets** is the portion of net position that represents the City's equity interest in its capital assets (capital assets less the amount of debt used to acquire them).

**Restricted net position** is the portion of net position subject to external restrictions e.g. state law, bond covenants.

**Unrestricted net position** is the portion of net position not tied to capital assets or subject to legal restrictions, hence available to be used to provide services.

# Financial Condition

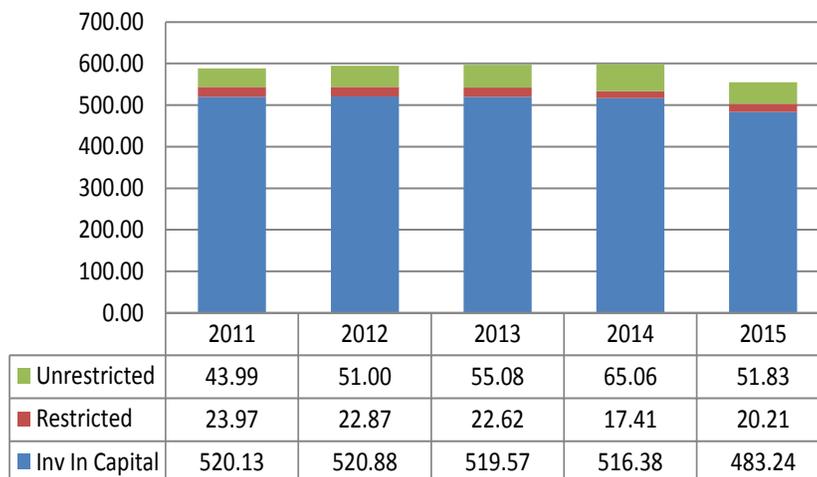
**Fund balance** is used only in governmental funds, such as in the General Fund, to denote the difference between fund assets and fund liabilities.

The information presented here is the city-wide assets, liabilities and net position as of December 31, 2015. City is a family of companies serving the communities. Included in this family of companies are one utility company that is designed to be run like any business and considered “business-type activities” and several other companies that carry out the functions of general government or to support other companies that are considered “governmental activities”.

The Total Net Position (assets minus liabilities) may serve over time as a gauge of government’s financial conditions which is the value of what the government owns compared to what it owes. Although most of what government owns may not be easily converted into cash to satisfy the government creditors i.e. the infrastructures like bridges and roads. The City’s net position is growing over the years and that is a good gauge of good financial health. The utility fund is accounted for in the Business-type.

Statement of Net Position(Million)			
	Governmental Activities	Business Type Activities	Total Primary Government
<b>Assets</b>			
Current & other assets	93.39	7.90	101.29
Capital assets	448.57	59.38	507.95
<b>Total Assets</b>	<b>\$541.96</b>	<b>\$67.28</b>	<b>\$609.24</b>
<b>Total Deferred Outflows</b>	<b>\$2.14</b>	<b>\$0.20</b>	<b>\$2.34</b>
<b>Liabilities</b>			
Other Liabilities	5.19	0.64	5.83
Long-term liabilities	45.52	1.81	47.33
<b>Total Liabilities</b>	<b>\$ 50.71</b>	<b>\$ 2.45</b>	<b>\$ 53.16</b>
<b>Total Deferred Inflows</b>	<b>\$ 2.94</b>	<b>\$ 0.20</b>	<b>\$ 3.14</b>
<b>Net Position</b>			
Invested in capital asset net of related debt	424.24	59.00	483.24
Restricted	20.20	0.01	20.21
Unrestricted	46.01	5.82	51.83
<b>Total Net Position</b>	<b>\$490.45</b>	<b>\$64.83</b>	<b>\$555.28</b>

**Detail Net Position Trend(In Millions)**



Another factor that should be noted is the restriction and liquidity of the Net Position. The largest portion of the Net Position is invested in capital and infrastructure of the City. There was a prior period adjustments in 2015 to the Government-Type Capital Assets due mostly to Land that were recorded twice between 1991 and 2003 amounting to about \$36 million.

Even though it is net of related debt, capital and infrastructure are usually expected to provide services over a long period of time and this portion of the Net Position is not available for spending or future appropriation. The restricted portion of the Net Position is not subject to the control of the City and therefore not available for spending or appropriation other than for what it is intended for. The restriction is usually placed through a contract agreement, bond agreement, and other third party legally enforceable requirements. The third group of the Net Position is the unrestricted, which is the portion that may be spent or appropriated as the Council sees fit. The growth in the unrestricted Net Position is another measure of the entity wide financial health. In 2011, the City's Unrestricted Net Position was \$43.99 million. It grew to \$51.83 million as of the end of 2015.

### Net Position Trend( In Millions)



As shown in the table Statement of Activities, general government program activities do not generate enough program revenues of their own to cover the cost of services that are provided. A major part of the program revenues in the governmental activities are derived from the grants and service fees. Taxes are needed to pay for most of the governmental activities to make it whole.

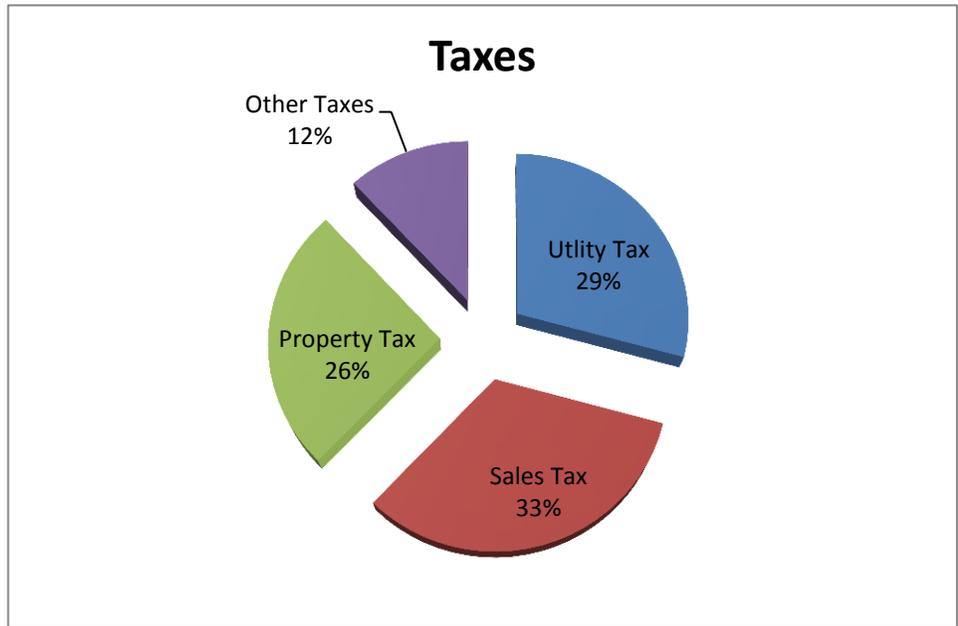
Statement of Activities			
(In Millions)	Governmental Activities	Business-type Activities	Total Primary Government
Program Expenses	\$64.32	\$5.34	\$69.66
Program Revenues	25.18	5.01	30.19
<b>Net Expenses</b>	<b>(39.14)</b>	<b>(0.33)</b>	<b>(39.47)</b>
<b>General Revenues</b>			
Property tax	10.46	-	10.46
Sales tax	13.30	-	13.30
Utility tax	11.80	-	11.80
Other taxes	7.85	-	7.85
Transfers and Other	(0.02)	0.04	0.02
<b>Total General Revenues and Transfers</b>	<b>43.39</b>	<b>0.04</b>	<b>43.43</b>
<b>Change in Net position</b>	<b>\$ 4.25</b>	<b>\$ (0.29)</b>	<b>\$ 3.96</b>

In the City of Federal Way unlike most other cities the larger share of our taxes are from a usage form of taxes such as sales, utility, excise, and business taxes. Property taxes account for a smaller portion of our total tax to run the general government. In 2015, the change in Net position increased by \$3.96 million bringing its total Net

Position to \$602.80 Million. After prior period adjustment of negative \$37.04 million, and net effect change in accounting for pensions of negative \$10.48 million total Net Position at the end of the year was \$555.3 million.

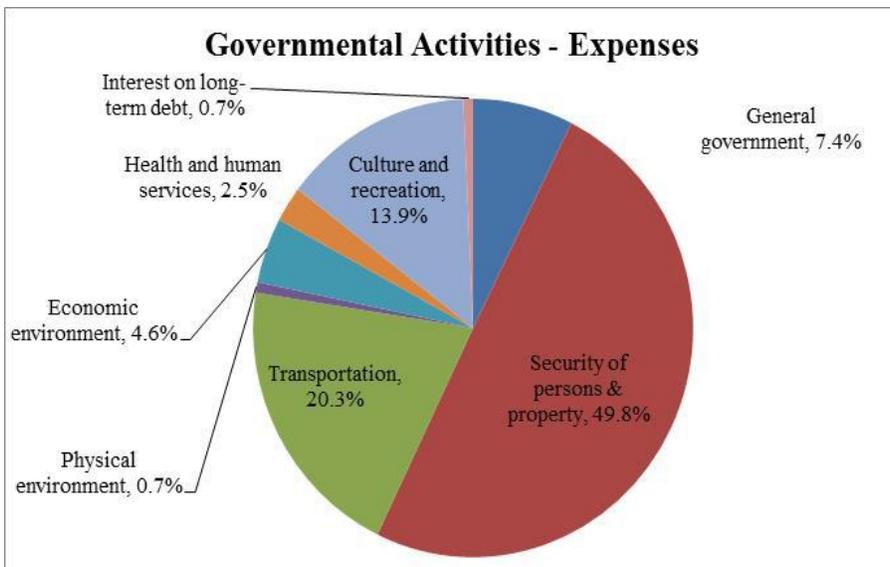
The pie chart on the next page shows the makeup of 2015 taxes that were used to run the general government activities. Utility tax accounted for 29% of the taxes collected and Sales tax accounted for 33% of taxes collected while the property tax was 26% and other taxes were 12%.

In 2015 10.18 % or \$1.35 million of sales tax was collected in February for December of the prior year. The Christmas activities are reflected in the pattern of the Sales tax revenue and collections. The average for all the other months was 8.17%. For Utility tax, the city collected 11.16% in March, 11.79% in June, and 12.38% in December. The City’s sales tax rate is 9.5% which is the same as neighboring cities in King County. See more information on sales tax under “Sales Tax”



The utility tax is based on the gross receipts of the utility service provider, i.e. Puget Sound Energy (PSE). Utility tax is not a direct payment from the consumer to the City.

A major part of the general government resources were spent on public safety, parks and road related programs as shown on the next pie chart. Security of Persons & Property consumed 49.8% of the total general government activities resources last year. This is a major indication of the City’s priority to protect its citizens and properties. Transportation takes a distant second at 20.3% of the general government’s expenditures last year. Transportation includes the development, construction and maintenance of the City’s roads. Culture and Recreation took a close third which is the maintenance of our parks, community and cultural centers and development of programs and activities for our community.

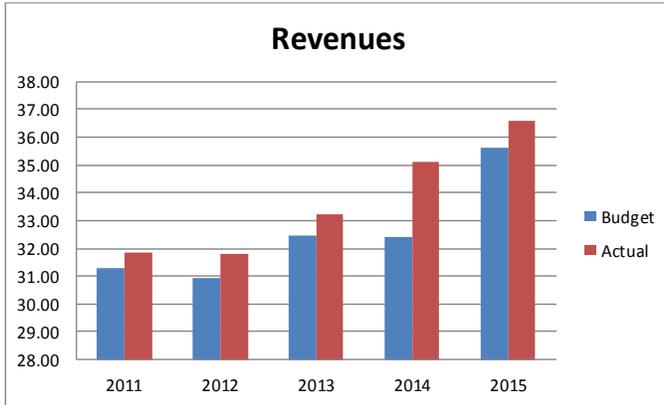


The rest of the general government resources were spent on Economic Environment, Health and Human Services, Physical Environment, and Interest on Long Term Debt. In any government these expenditure distributions may change year to year depending on the priority of the City and its leadership.

## General Fund Highlights

The General fund is the chief operating fund of the City. At the end of 2015, total fund balance was \$14.60 million. After deducting legal reserves, amounts committed by the legislative body and those voluntarily set aside for specific purposes, the remaining available amount that may be appropriated in 2016 and beyond was \$2.36 million, about 5.7% of the 2015 Total Expenditures.

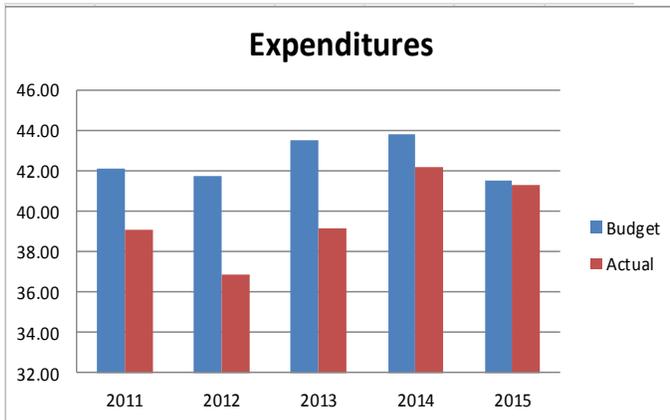
The Actual Revenue consistently exceeded the Budgeted Revenue as shown in the graph below. The differences between the budget and actual are more noticeable in 2014 and 2015. Outperforming the revenue budget



coupled with under spending in expenditures is a good sign. In 2015, the actual revenue in General Fund was \$36.59 with Taxes accounting for \$26.10 million. More than \$13.29 million was from Sales tax and more than \$10.30 was from Property tax. The City saw its lowest revenue in 2012 as shown in the adjacent graph.

Revenues	2015 Budget	2015 Actual
Taxes	\$25.74	\$26.10
Licenses & permits	2.85	3.47
Intergovernmental	1.77	1.98
Service charges & fees	3.59	3.21
Fines & forfeitures	1.16	1.08
Other	0.49	0.75
<b>Total</b>	<b>\$35.60</b>	<b>\$36.59</b>

The Actual Expenditures also fell behind the Budgeted Expenditures in the past five years. The City had its lowest spending in 2012 out of the five years shown in the graph. The spending held steady in 2015.



The city's way to sustainable future is to keep an eye and control their spending while growing its revenues. Unfortunately, because of the competitive nature of our labor market the City will have to pay competitive wages to keep its good staff.

Department Expenditures	2015 Budget	2015 Actual
Mayor	\$1.51	\$1.49
Council	0.39	0.36
Court	1.33	1.31
Human Resources	0.41	0.40
Clerk	0.46	0.42
Finance	0.91	0.88
Law	1.32	1.30
Community Development	3.13	2.96
Parks and Recreation	3.55	3.68
Police	22.67	23.14
Non Departmental	5.80	5.33
<b>Total</b>	<b>\$41.48</b>	<b>\$41.27</b>

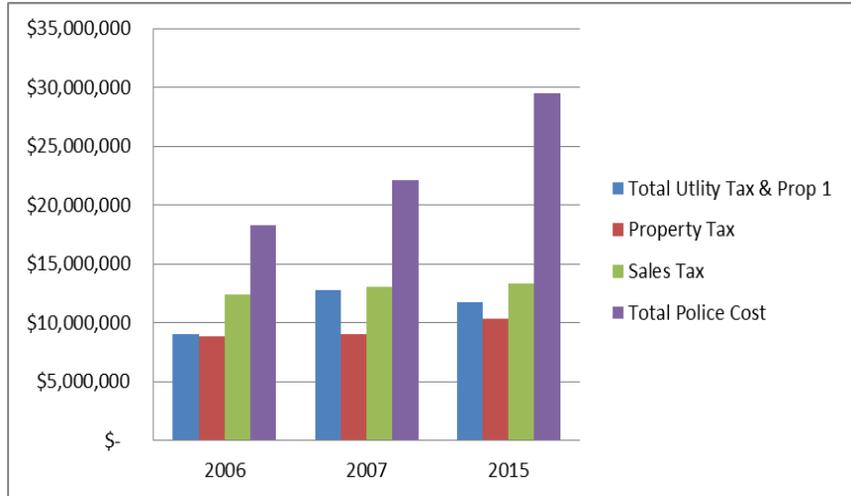
The City spends most of its resources to ensure the security of its citizens and their properties as evidenced by the appropriation and spending breakdown. In 2015, the City spent 56.1% (\$23.14 Million) of its resources on Police department. Parks and Recreational programs took 8.9% (3.68 million) and Community Development accounted for about 7.2%. Courts and Law consumed about 6.3%. The 21.5% remaining was spent on Council, Human Resources, Finance, and Non Departmental.

## *Other Financial Information*

Revenues:	2006	2007	2015
Total Utility Tax & Prop 1	\$ 9,043,450	\$ 12,796,462	\$ 11,796,549
Property Tax	\$ 8,883,718	\$ 9,066,922	\$ 10,305,144
Sales Tax	\$ 12,409,719	\$ 13,048,624	\$ 13,297,086
Total Police Cost	\$ 18,317,798	\$ 22,103,232	\$ 29,514,204

Between 2006 and 2015 the Utility Tax revenue grew by 30%, Property Tax by 16%, Sales Tax by 7%, and Police spending grew by 61%.

The table above shows the growth in the three major sources of revenue for the City in relation to spending on the security of its people. Over the years, City of Federal Way invested a lot of its financial resources on the security of people and properties within its boundaries. Major part of Proposition 1 is spent on our Police Department. The City charges 7.75% tax on the utility services except Water and Sewer within its jurisdiction. The difference



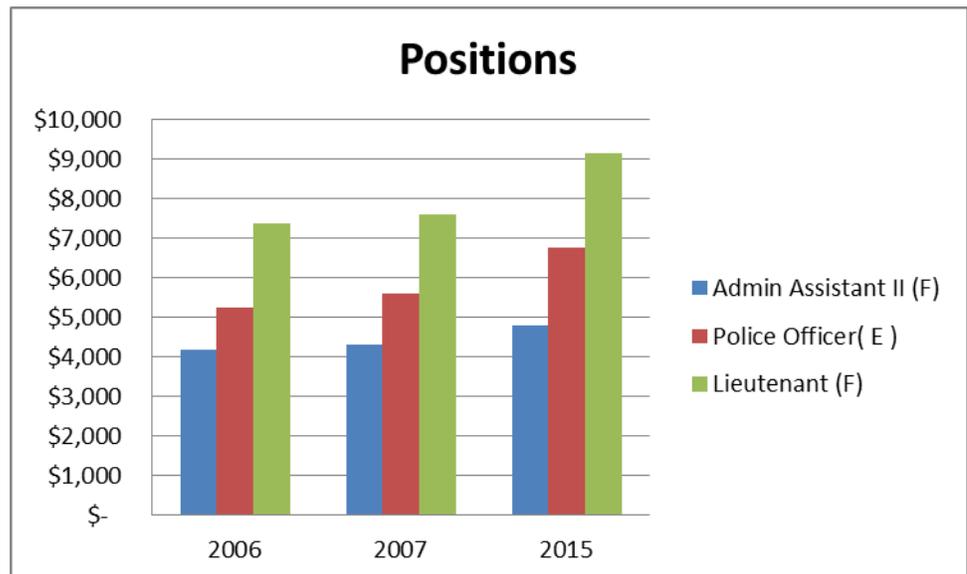
Positions:	2006	2007	2015
Admin Assistant II (F)	\$ 4,176	\$ 4,309	\$ 4,796
Police Officer ( E )	\$ 5,256	\$ 5,588	\$ 6,767
Lieutenant(F)	\$ 7,385	\$ 7,618	\$ 9,163

between the 6% and the 7.75% is considered Prop 1 and is dedicated to specific use.

The growth in the labor cost between 2007 and 2015 is an

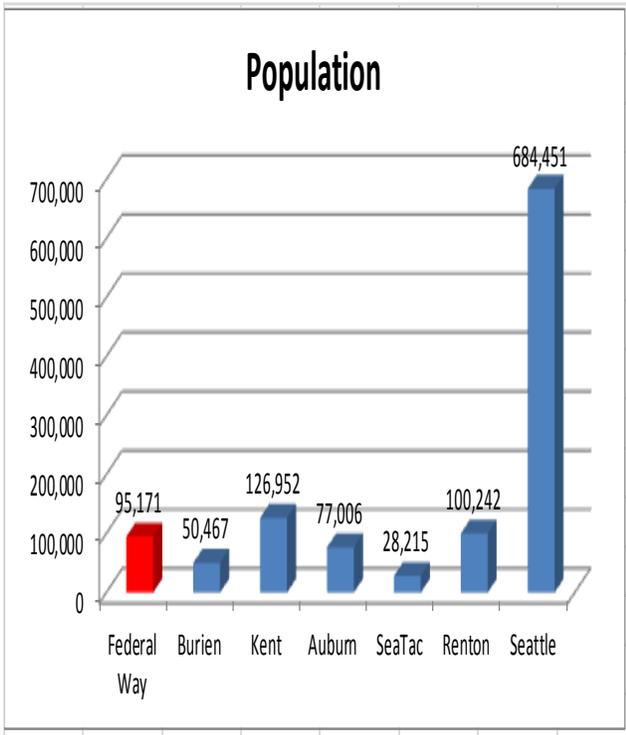
evidence of the City's commitment to our law enforcement.

Prop 1 took effect in 2007, Lieutenant and Police Officer positions increased by 20% and Admin Assistant position grew by 11% between 2007 and 2015. Between 2006 and 2015, Police salary increased by 29%, Lieutenant Salary increased by 24%, and Admin Assistant increased by 15%.

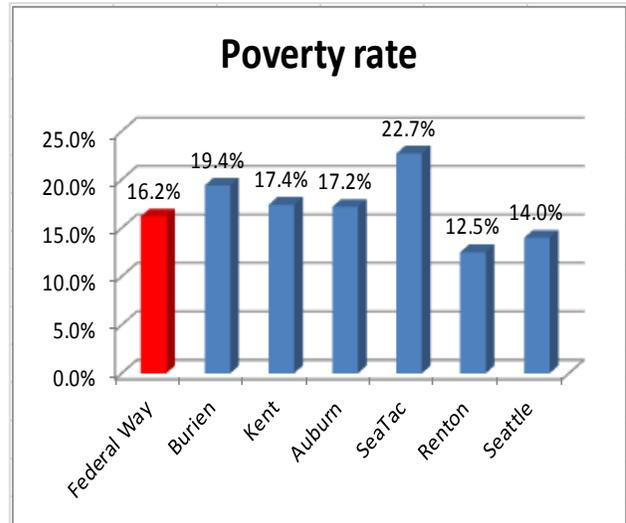


## So, How Do We Stack Up

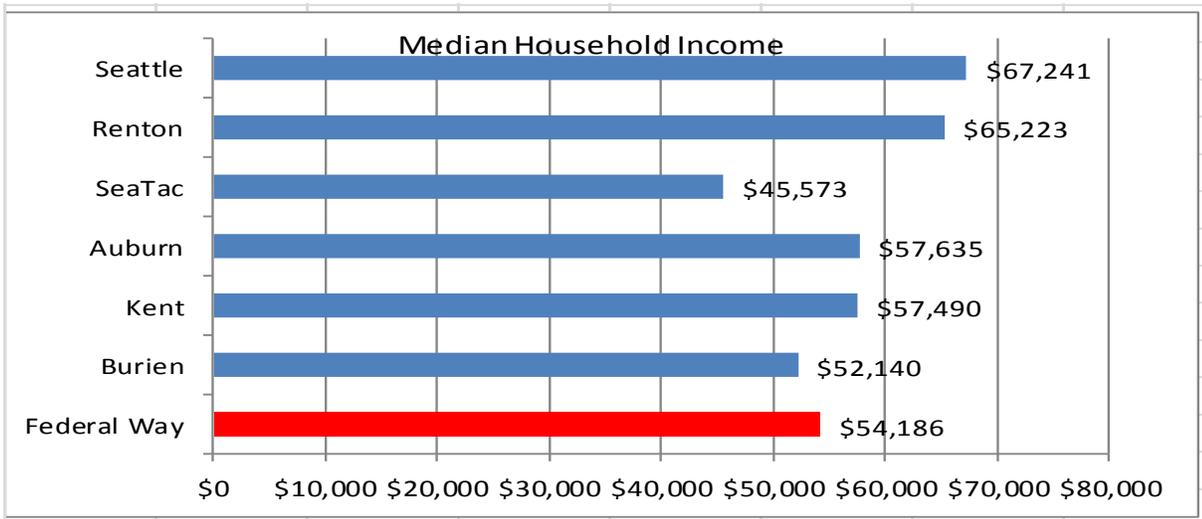
The City of Federal Way is the 9<sup>th</sup> largest city in the State of Washington and King County is the 13<sup>th</sup> most populous County in United States. *By Washington Demographic.com*



The City of Seattle is the most populous city in King County and the State of Washington. Among our seven comparable cities, City of Federal Way is the fourth populous and the ninth in the State of Washington.

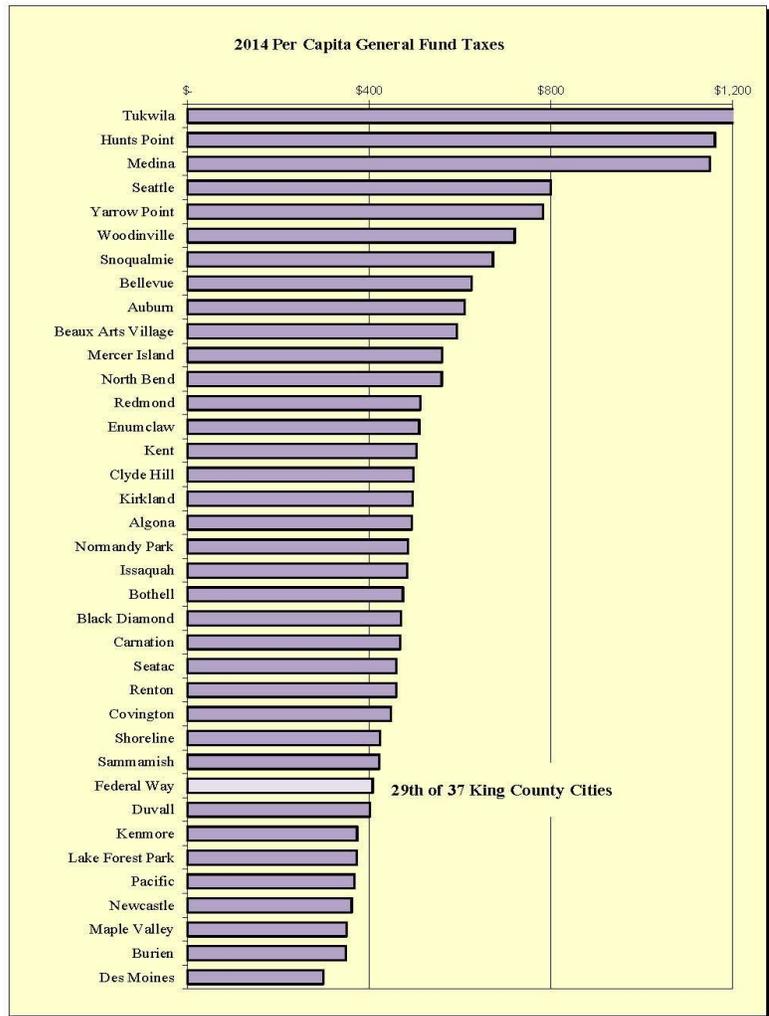


Although City of Federal Way is fourth in population among the comparable cities but it is ranked fifth in poverty rate with 16.2% of its residents living below poverty level according to Washington-demographics.com. Federal Way is also the fifth in median household income with \$54,186 after Kent at \$57,490. City of Seattle has the highest at \$67,241 and City of SeaTac with the lowest at \$45,573.



2014 PER CAPITA GENERAL FUND TAX REVENUES FOR KING COUNTY CITIES

City	Population	Per Capita	Rank
Tukwila	19,210	\$ 1,368	1
Hunts Point	405	1,162	2
Medina	3,055	1,151	3
Seattle	640,500	801	4
Yarrow Point	1,015	783	5
Woodinville	11,240	721	6
Snoqualmie	12,130	673	7
Bellevue	134,400	626	8
Auburn	74,630	610	9
Beaux Arts Village	295	594	10
Mercer Island	23,310	561	11
North Bend	6,280	560	12
Redmond	57,700	513	13
Enumclaw	11,110	511	14
Kent	121,400	505	15
Clyde Hill	2,995	498	16
Kirkland	82,590	496	17
Algona	3,090	495	18
Normandy Park	6,375	485	19
Issaquah	32,880	484	20
Bothell	41,630	474	21
Black Diamond	4,180	470	22
Carnation	1,790	469	23
Seatac	27,620	460	24
Renton	97,130	460	25
Covington	18,480	448	26
Shoreline	53,990	424	27
Sammamish	49,260	422	28
<b>Federal Way</b>	<b>90,150</b>	<b>408</b>	<b>29</b>
Duvall	7,325	402	30
Kenmore	21,370	374	31
Lake Forest Park	12,750	373	32
Pacific	6,830	367	33
Newcastle	10,850	361	34
Maple Valley	24,230	350	35
Burien	48,240	349	36
Des Moines	30,030	299	37
<b>Average:</b>	<b>48,391</b>	<b>\$ 554</b>	<b>37</b>



Source: Local Government Financial Reporting System data from the State Auditor's Office. 2014 population is from Office of Financial Management.

Taxes include Property Tax, Sales Tax, Criminal Justice Sales Tax, Utility Tax reported in the General Fund, and excludes Fire/Library.

2015 data is not available as of the time of this report.

## Sales Tax

Sales tax accounted for 32.15% of the total tax revenue for the city in 2015. Currently, retail businesses in the City of Federal Way charge 9.50% sales tax on retail sale's transactions in the city. This translates to nine and half cents on every dollar or nine dollars and fifty cents on every one hundred dollars spent. Eight entities share the sales tax collected in the City of Federal Way and the share of individual jurisdictions range from one tenth of a cent to six and half cents. So, for every dollar paid in sales tax the City of Federal Way receives 8.95 cents and the State receives 68.42 cents.

The total sales tax rate for the City of Federal Way is 9.50%, and the state of Washington charges 6.50% (68.42% of the 9.50%). The actual rate charged by the City of Federal Way is 0.85% (8.95% of the 9.50%).

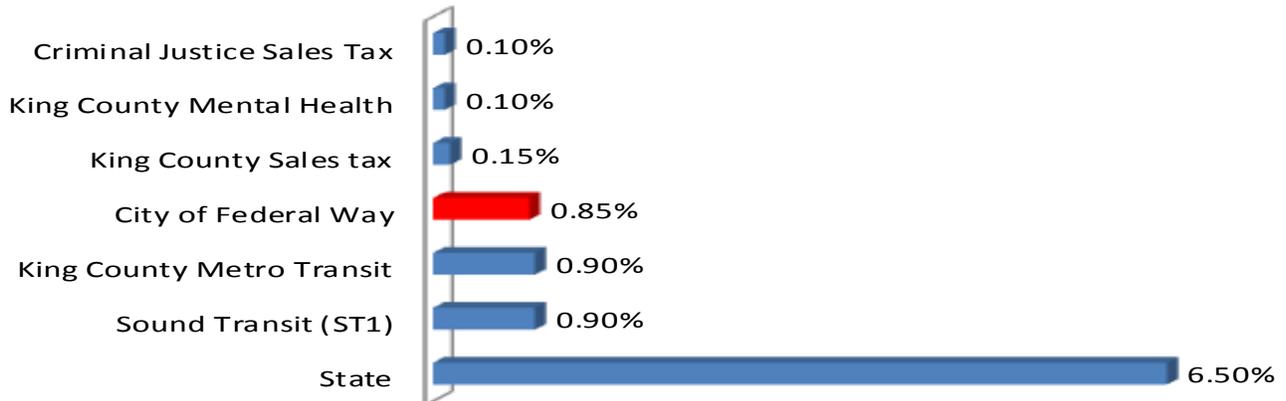
One of the major differences between the Sales Tax and Property Tax is that there is no residency requirement on Sales Tax.



The growth in Sales Tax revenue is not due to an increased tax rate and thus may be a

major signal of economic growth in the retail sector of the economy. Growth in retail sector is due to increased sales, which may be due to increase number of businesses or increased sales by current businesses. Either way, increased sales are often traceable to more people coming into the city to shop, or the people that live in the city are staying in their city and spending more, or a mixture of the two. The government can play a major role to make sure people are coming in to spend and the residents are given opportunity to stay and spend in their own community.

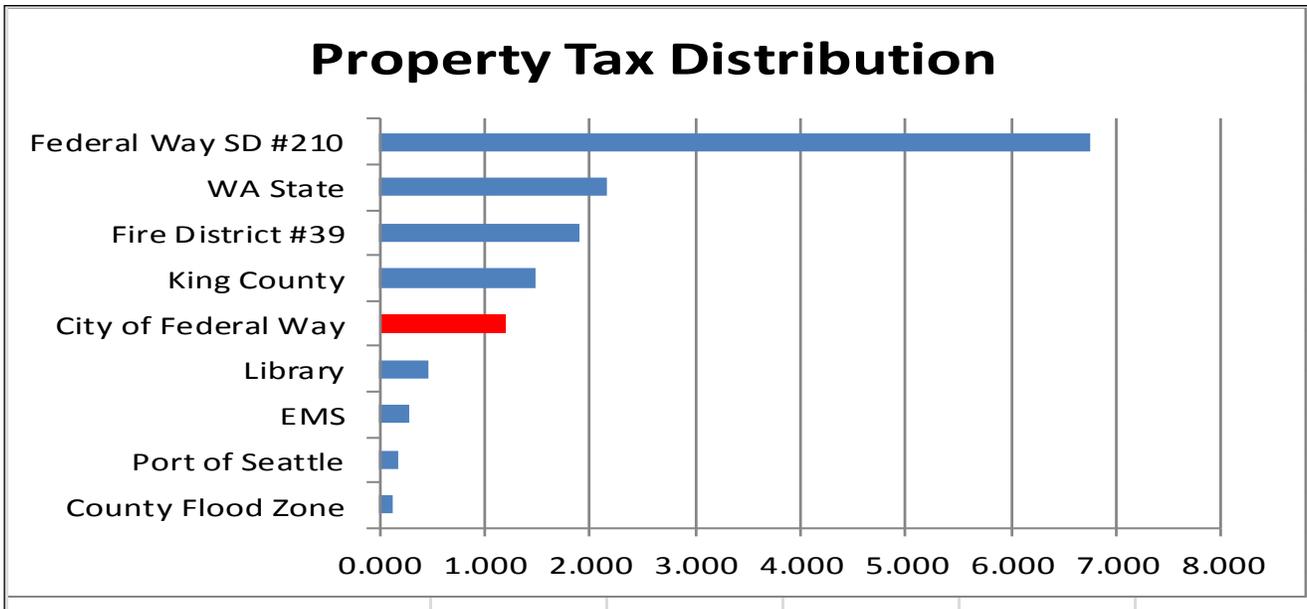
### Sales Tax Distribution



## Property Tax

The Property tax is the third largest tax of the three major taxes levied and collected in Federal Way in 2015. The amount levied in 2015 for collection in 2016 for the operations in 2016 was \$14.55073 per \$1,000 of property value. For example a property worth \$100,000 paid \$1,455.07 ( $100,000 / 1,000 * 14.55073$ ) in 2016 to support the government entities that have taxing authorities on the properties within the City of Federal Way. Out of the \$14.55073 per \$1,000 property tax levied, 55.31% (\$8.0484 out of \$14.55073) was voted on by the citizens of Federal Way. Federal Way School District #210 will receive 46.37% (\$6.74731 of \$14.55073) of the property tax collected in 2016. Washington State; the School District and King County will receive 71.45% of the property tax revenue. The entities that have taxing authorities on the properties within the City of Federal Way and their tax rates are:

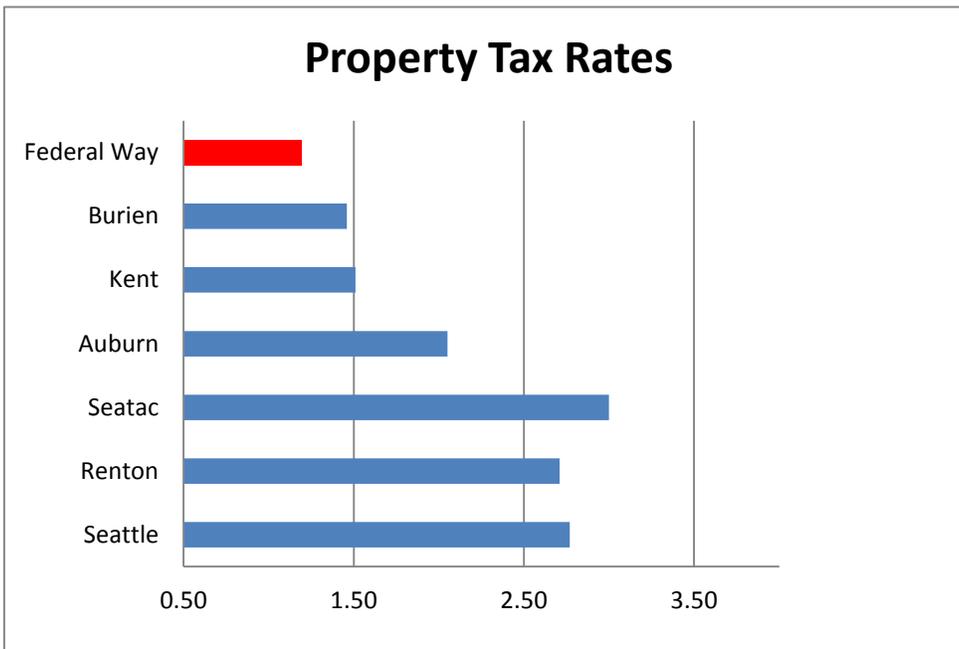
	<u>Voted</u>	<u>Non-voted</u>	<u>Total</u>	<u>%*</u>
1. <b>City of Federal Way</b>	0	1.18504	1.18504	8.1%
2. Federal Way School District #210	6.74731	0	6.74731	46.4%
3. King County	0.55569	0.92458	1.48027	10.2%
4. Washington state	0	2.16898	2.16898	14.9%
5. County Flood zone	0	0.12980	0.12980	0.9%
6. Port of Seattle	0	0.16954	0.16954	1.2%
7. Fire District #39	0.41030	1.50000	1.91030	13.1%
8. Library	0.05275	0.42439	0.47714	3.3%
9. Emergency Medical Services	<u>0.28235</u>	<u>0</u>	<u>0.28235</u>	1.9%
Total Levy rate	<u>8.04840</u>	<u>6.50233</u>	<u>14.55073</u>	
*rounding	<b>55.31%</b>	<b>44.69%</b>	<b>100.00%</b>	



The City of Federal Way levied the lowest tax rate among the other King County Cities for the past thirteen years. The lowest was in 2009 with \$0.97 per \$1,000 of property value. The \$1.20 per \$1,000 we levied in 2012 was lower than the \$1.30 rate we levied 8 years earlier in 2004. The 2016 rate of \$1.19 per \$1,000 is the lowest among the comparable cities in 2016.

As shown in the table below, the City of Federal Way has levied the lowest property tax rate every year among the comparable neighboring cities since 2004.

Years	Federal Way	Kent	Auburn	Burien	Renton	Seattle	SeaTac
2004	1.30	2.85	2.88	1.45	3.33	3.60	2.82
2005	1.27	2.94	2.87	1.47	3.23	3.59	2.80
2006	1.22	2.80	2.73	1.60	3.12	3.38	2.77
2007	1.14	2.56	1.48	1.51	2.88	3.43	2.61
2008	1.04	2.36	1.49	1.39	2.62	3.07	2.45
2009	0.97	2.18	1.49	1.26	2.37	2.86	2.34
2010	1.13	2.36	1.82	1.52	2.71	3.23	2.58
2011	1.20	1.48	1.93	1.56	2.83	3.36	2.80
2012	1.30	1.57	2.08	1.60	3.10	3.58	2.88
2013	1.42	1.69	2.10	1.60	3.10	3.29	3.10
2014	1.40	1.65	2.17	1.60	3.15	3.05	3.10
2015	1.25	1.58	2.08	1.59	2.83	2.62	3.16
2016	1.19	1.51	2.05	1.46	2.71	2.77	3.00



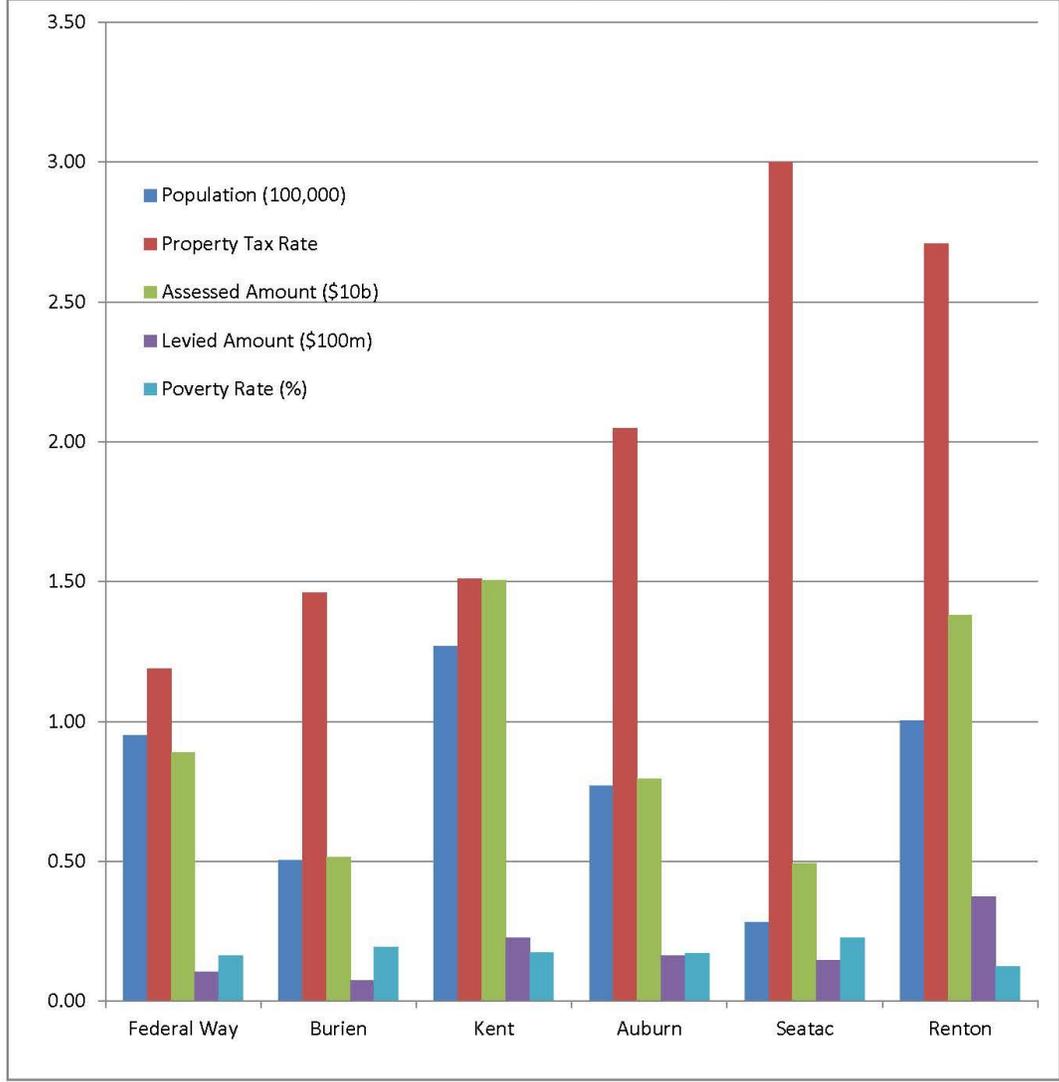
Among the comparable neighboring cities, the City of Federal Way levied the lowest every year for the past 13 years. Seattle levied the highest 10 out of the 13 years. SeaTac levied the higher 2 out of the 13 years and Renton levied the highest 1 out of the 13 years.

Among King County cities, the City of SeaTac levied the highest property tax in 2016 of \$2.99542 and City of Hunts Point levied the lowest of \$0.30052 per

\$1,000 of assessed property value. The City of Seattle levied \$2.77302 per \$1,000.

According the King County Assessor’s Office, the City of Federal Way has 25,597 parcels on it tax rolls in 2015. Out of the 25,597 parcels 20,301 parcels are considered single family residents, 3,904 condominium, 1,117 commercials, 266 apartment complexes, and the rest are considered undeveloped land.

Property Assessed Amount and Levied Amount						
	Population*	Property Tax Rate**	Assessed Amount**	Levied Amount**	Poverty Rate (%)*	Ranking (P,R,A,L,P)
Federal Way	95,171	1.19	8,905,294,058	10,487,319	16.2%	3,6,3,5,5
Burien	50,467	1.46	5,159,990,547	7,443,096	19.4%	5,5,5,6,2
Kent	126,952	1.51	15,046,306,884	22,657,939	17.4%	1,4,1,2,3
Auburn	77,006	2.05	7,948,426,775	16,201,937	17.2%	4,3,4,3,3
Seatac	28,215	3.00	4,935,361,365	14,714,271	22.7%	6,1,6,4,1
Renton	100,242	2.71	13,812,773,159	37,269,743	12.5%	2,2,2,1,6
Seattle	684,451	2.77	163,924,328,611	452,827,119	14.0%	



\* - Washington-demographics.com

\*\* - King County Assessor's Office

## *Utility Tax*

The City of Federal Way, like most cities in Washington State, charges utility tax on the businesses that provide utility services within its jurisdiction. According to the City of Federal Way Revised Code No.3.10, the following businesses are subject to Utility tax of 7.75% (1) telegraph businesses, (2) competitive telecommunication service or network telecommunication services (3) cellular telephone service, (4) selling, brokering or furnishing natural gas for domestic, business or industrial consumption, (5) operating storm drainage, (6) selling or furnishing electric energy, (7) collecting solid waste, and (8) engaged in or carrying on the business of cable communications

In 2003, the City council recognized that senior citizens could be negatively affected by the increases in utility taxes: they created the Utility Tax Rebate Program and in 2007, the disabled citizens were included in the program. To qualify for this program, a person must be requesting reimbursement for the amount of city utility taxes imposed during the previous calendar year and must (1) be 65 years of age or older at all times during any period for which reimbursement is requested or be disabled and unable to work as defined under RCW 84.36.381, and (2) have income during the calendar year or in part thereof for which reimbursement is requested from all sources whatsoever not exceeding the low income guidelines for King County area as published by the Secretary of Housing and Urban Development.

The following are the utility tax rates paid by the residents of City of Federal Way and the neighboring cities

<b>Utility</b>	<b>Auburn</b>	<b>Burien</b>	<b>Federal Way****</b>	<b>Kent*</b>	<b>Renton**</b>	<b>SeaTac***</b>
Electric Rate	6.00%	6.00%	7.75%	6.00%	6.00%	no utility tax
Gas	6.00%	6.00%	7.75%	6.00%	6.00%	
Solid Waste	7.00%	6.00%	7.75%	7.80%	6.80%	
Storm Water	7.00%	0.00%	7.75%	13.00%	6.80%	
Cable TV	6.00%	6.00%	7.75%	6.00%	6.00%	
Cable Franchise Fee	5.00%	5.00%	5.00%	5.00%	5.00%	
Water	7.00%	0.00%	3.60%*	13.00%	6.80%	
Sewer	7.00%	0.00%	3.60%*	13.00%	6.00%	
Phone/Cellular Phone	6.00%	6.00%	7.75%	6.00%	6.00%	
Average Tax	6.33%	3.89%	7.36%	8.42%	6.16%	0.00%

Kent\* - Water, Sewer, Drainage going down to 12% in 2015

Renton\*\*- Water, Drainage, and Garbage went up by 0.8% to 6.8% in 2013 for capital

Seatac\*\*\*- Currently under consideration

Federal Way\*\*\*\*- 1.75% of the 7.75% is voter approved rate to fund Police and Community

Water & Sewer\* - 3.6% Franchise Fee starting July 2016

## *Other Taxes*

### **Hotel/Motel Lodging Tax RCW 67.28**

Most cities in King County may levy a 1% Lodging Tax on overnight stays at hotels, motels, rooming houses, campgrounds, RV parks and similar facilities for continuous periods of less than one month. The total tax paid on overnight lodging in King County by visitors at a facility with 60 or more rooms is 12.4%, and 9.8% for less than 60 rooms, including the 1% City Lodging Tax. The City enacted its tax in 1999 to fund tourism promotion programs.

### **Real Estate Excise Tax (REET) RCW 82.46.010, RCW 82.46.035)**

The State of Washington is authorized to levy a real estate excise tax on all sales of real estate (measured by the full selling price, including the amount of any liens, mortgages and other debts given to secure the purchase) at a rate of 1.28 percent. A locally-imposed tax is also authorized. All cities and counties may levy a quarter percent tax (described as "the first quarter percent of the real estate excise tax" or "REET 1"). Cities and counties planning under the Growth Management Act (GMA) have the authority to levy a second quarter percent tax (REET 2). The statute further specifies that if a county is required to plan under GMA or if a city is located in such a county, the tax may be levied by a vote of the legislative body. If, however, the county chooses to plan under GMA, the tax must be approved by a majority of the voters.

### **Gambling Excise Tax**

The City levied gambling taxes at their maximum allowed level on all activities: 5% for bingo and raffles, 2% for amusement games, 5% for punchboards and pull-tabs, and 20% for card rooms (RCW 9.46.110) prior to 2010. Gambling taxes were amended from 5% to 3% on June 1, 2010 for punchboards/pull-tabs and from 20% to 10% for card rooms on August 1, 2010. Revenues from these activities are required to be used primarily for the purpose of gambling enforcement (RCW 9.46.113). Case law has clarified that "primarily" means "first be used" for gambling law enforcement purposes to the extent necessary for that city. The remaining funds may be used for any general government purpose. The City receipts Gambling Tax in the General Fund and identifies the revenue as law enforcement resources.

<b>Other Taxes</b>	<b>Auburn</b>	<b>Burien</b>	<b>Federal Way</b>	<b>Kent</b>	<b>Renton</b>	<b>Seatac</b>
Hotel/Motel	1.00%	0.00%	1.00%	1.00%	1.00%	1.00%
REET	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Bingo/Raffles	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Punch Boards/Pulltabs	10.00%	8.00%	3.00%	10.00%	10.00%	5.00%
Charitable Pulltab/Punch Boards	10.00%	8.00%	10.00%	10.00%	10.00%	5.00%
Card Rooms	4.00%	8.00%	10.00%	11.00%	10.00%	10.00%
Amusement Games	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

## *Long-term Debt*

As of December 31, 2015 the City of Federal Way had a total of \$34.04 million in bonds and notes outstanding. This amount comprises of \$11.35 million of 2013 Refunding of Community Center General Obligation Bonds, \$14.10 million of SCORE Special Obligation Bonds, \$ 8.21 million of 2014 Key Bank Bond Anticipation Note, and \$0.38 million of Public Works Trust Fund Loans. The City’s Community Center Refunding was rated Aaa by Moody and the SCORE was rated AA by Standard and Poor’s. Moody’s Aaa rating of the City’s General Obligation Bonds signifies to the bondholders that issuer’s capacity to meet its debt service requirement on the debt is very good and the bondholder will be assuming very low risk.

Annual Debt Service (\$ Millions)						
	Governmental Activities			Business-type Activities		
Year	Principal	Interest	Total	Principal	Interest	Total
2015	1.05	1.09	2.14	0.096	0.005	0.097
2016	0.86	1.05	1.91	0.096	0.004	0.096
2017	9.10	1.02	10.12*	0.096	0.003	0.096
2018	0.92	0.87	1.79	0.096	0.002	0.096
2019	0.94	0.84	1.78	0.096	0.001	0.096

\*The 3 year loan used to purchase the Target property was an interest only loan, and the \$8.21 million in principal is due in December 2017.

RCW 39.36.02 (2(a)i) “Counties, cities, and towns are limited to an indebtedness amount not exceeding one and one-half percent of the value of the taxable property in such counties, cities, or towns without the assent of three-fifths of the voters therein voting at an election held for that purpose.” For 2015, the City’s Assessed Valuation was \$8.85 billion, putting the Councilmanic debt capacity at \$132.73 million, and outstanding debt was \$33.66 million (not including \$2.28 million available to service the debt), and Councilmanic excess capacity was \$88.49 million.

The City may increase its General Obligation Debt above the Councilmanic 1.5% limit to 2.5% by the 3/5 vote of its citizens.

The following is the city’s remaining debt capacity by categories as of December 31, 2015:

- General government Councilmanic (no vote required)           \$101.36 million
- General government 3/5 majority vote required               88.49
- Parks and Open space 3/5 majority vote required           221.22
- Utilities 3/5 majority vote required                           221.22

The City has debt capacity of \$189.85 million (\$101.36 + \$88.49) for the general government with the 2/3 majority vote of the people of Federal Way. In assessing the ability to borrow we must use two important measurements: 1- legal restrictions, and (2) ability to service the debt. The debt capacity answered the first measurement – the legal restrictions. The second measurement, ability to service the debt is the ability of the entity to make the annual payments without affecting the service delivery.

## *Economic Condition*

**IT'S ALL WITHIN REACH.** The economic condition for the City of Federal Way looks very good. The State of Washington, topping the list of the best state to make a living, and was second two consecutive years previously according to Forbes Magazine. As the City of Federal Way leadership puts it “Federal Way can’t wait”. The City’s future is bright, the permit information requests, and permit licenses are up. Activities in downtown are picking up. At its June 2, 2014 meeting the City Council approved the construction of a \$32 million Performing Arts and Event Center in downtown, coupled with a downtown park close by. The multipurpose facility will feature a 700-seat auditorium that will serve a growing demand for community performing arts space, as well as serve as a South King county venue for touring acts and performance series. In its dual role as a conference center, the facility will host local and regional business retreats and workshops and address the demand for community meeting spaces and local events. The facility will be complemented by an on-site hotel. The City is investing in its future and the business community is noticing. The City is investing in its road infrastructure and economic developments.



The King County area had its lowest unemployment rate of 4.3% (not seasonally adjusted) of the last three years in April of 2014, against the State overall rate of 5.6%, according to the State Employment Security Department. Few of the advantages community of Federal Way has include low cost office space, affordable housing, quick and easy access to Seattle-Tacoma International Airport, short commute to and from Seattle, convenient access to quality recreation facilities, rich infrastructure, and a skilled workforce. The city is partnering with neighbors and friends to make Federal Way a destination of choice for retreat, shopping or just to

live and raise a family. We are on our way, it’s all within reach.

The major employers in the city are shown in the table. Both the health services and medical services are growing.

<b>Employer</b>	<b>Type of Business</b>	<b>Number of Employees</b>
Federal Way Public Schools	Education Services	2242
Xerox Commercial Services LLC	Business Services	1350
weyerhaeuser Company	Lumber Products	1145
St. Francis Hospital	Medical Services	1032
Wild Waves	Amusement Center	871
world Vision Inc.	Chritian Relief agency-Nonprofit	854
US Postal Services-Bulk Mail	Postal Services	616
City of Federal Way	government Services	484
Wal-Mart supercenter No. 3794	Retail	476
Davita	Health Services	318