



Popular Annual Financial Report



City of Federal Way, Washington

For the year ended December 31, 2017

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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.

Message from the Mayor

June 30, 2018

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

It is our pleasure to present to you the 2017 City of Federal Way Popular Annual Financial Report (PAFR). This is the City's fourth 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 the CAFR is available on the City's website at <http://www.cityoffederalway.com/>



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 local economic condition for the City of Federal Way looks very good. The license permits for new construction have increased. The sales tax revenue is up and is back to prerecession levels, and the City continues to grow.

Through the sacrifices of the past, the fund balance in the City's General Fund was at the required level at the end of 2017, 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.

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 its financial operation and performance. As always, we encourage readers to send questions, feedback, or comments about this report (PAFR) to Finance Director Adé Ariwoola at ade.ariwoola@cityoffederalway.com.

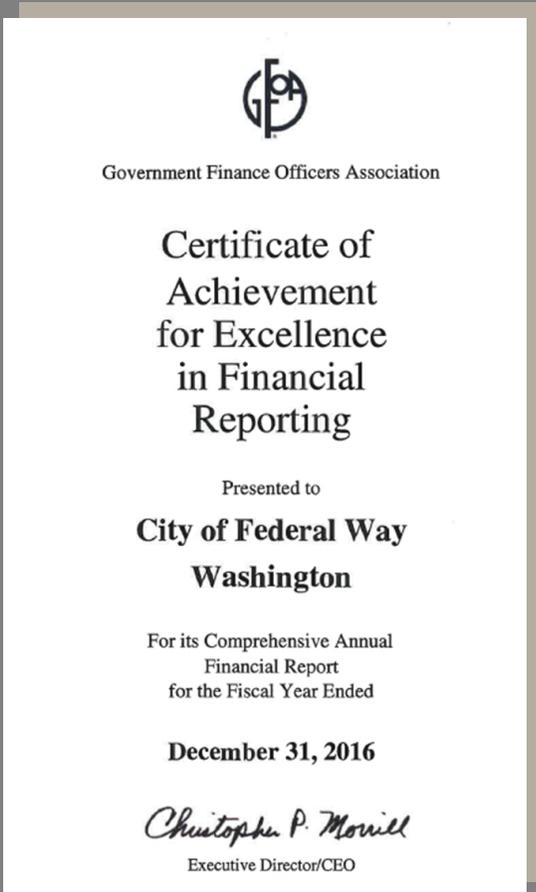
Sincerely,

A handwritten signature in black ink that reads "Jim Ferrell". The signature is written in a cursive, flowing style.

Jim Ferrell, Mayor

Association Awards

The City produced its first biennial budget in 1996 for the fiscal years 1997 and 1998 as a part of an attempt to improve its efficiency with regards to the amount of time spent on the budget process annually. The 2017-2018 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 2019-2020 Biennial Budget for review again.



The City received the "Certificate of Achievement for Excellence in Financial Reporting" award for its 2016 CAFR. The 2017 CAFR has been submitted to the 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.

In order to receive this award, the published report must reflect the program standards of creativity, presentation, understandability, and reader appeal. We believe our CAFR continues to conform to the Certificate of Achievement program requirements.



About the City



Jim Ferrell
Mayor



Jeanne Burbidge
Deputy Mayor



Lydia Assefa-Dawson
Councilmember #1



Bob Celski
Councilmember #2



Susan Honda
Councilmember #3



Mark Koppang
Councilmember #5



Martin A. Moore
Councilmember #6



Dini Duclos
Councilmember #7



<u>Position</u>	<u>End of the Term</u>	<u>Email</u>
Mayor - Jim Ferrell	Dec 31, 2017	Jim.Ferrell@cityoffederalway.com
P#1 - Lydia Assefa-Dawson	Dec 31, 2019	Lydia.Assefa-Dawson@cityoffederalway.com
P#2 - Bob Celski	Nov28, 2017	Bob.Celski@cityoffederalway.com
P#3 - Susan Honda	Dec 31, 2019	Susan.Honda@cityoffederalway.com
P#4 - Jeanne Burbidge	Dec 31, 2017	Jeanne.Burbidge@ctiyoffederalway.com
P#5 - Mark Koppang	Dec 31, 2019	Mark.Koppang@cityoffederalway.com
P#6 - Martin A. Moore	Dec 31, 2017	Martin.Moore@cityoffederalway.com
P#7 - Dini Duclos	Dec 31, 2019	Dini.Duclos@cityoffederalway.com

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

The City Council meets the 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 “Agendas and Minutes”. Video recordings of the meetings are televised on Comcast public television channel 21 and broadcast live on the City’s YouTube channel, FWYouTube, and previously recorded meetings may be viewed online at www.cityoffederalway.com

Councilmember Bob Celski was appointed to replace Councilmember Kelly Maloney in January 2017 when she voluntarily resigned from her position. 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	Mar 3, 2008
Judge Rebecca Robertson	Jan 1, 2010

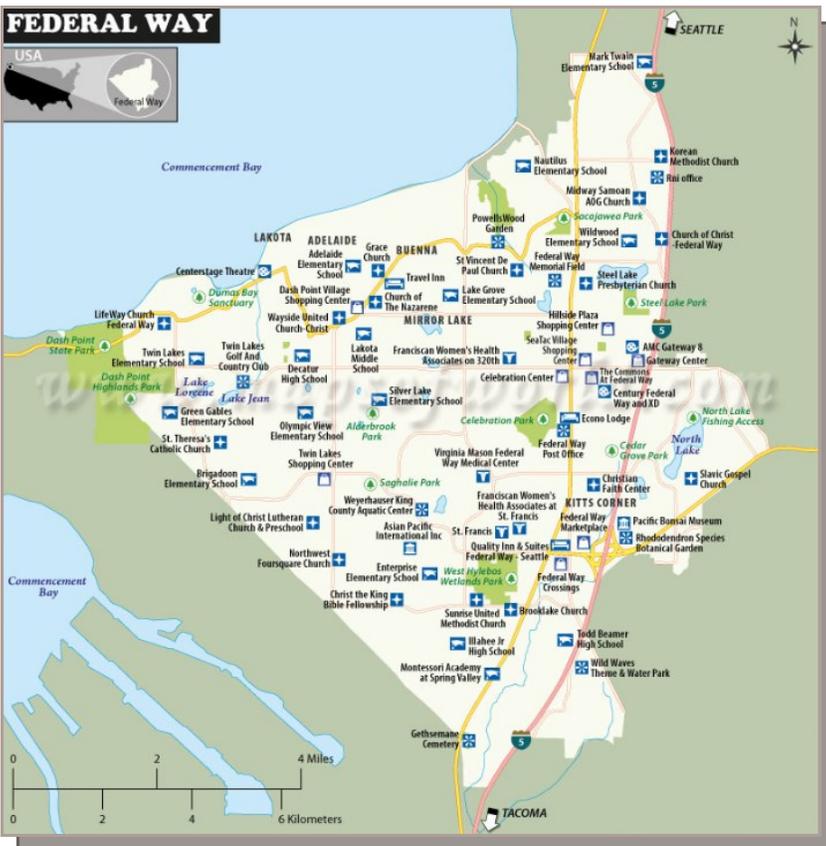
Appointed Officials

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

<u>Official</u>	<u>Title</u>	<u>Email</u>
Ryan Call	City Attorney	Ryan.Call@cityoffederalway.com
Stephanie Courtney	City Clerk	Stephanie.Courtney@cityoffederalway.com
Brian Davis	Community Dev. Director	Brian.Davis@cityoffederalway.com
Tim Johnson	Economic Dev. Director	Tim.Johnson@cityoffederalway.com
Adé Ariwoola	Finance Director	Ade.Ariwoola@cityoffederalway.com
Jean Stanley	Human Resources Manager	Jean.Stanley@cityoffederalway.com
Thomas Fichtner	IT Manager	Thomas.Fichtner@cityoffederalway.com
Theresa Yvonne	PAEC Executive Director	Theresa.Yvonne@cityoffederalway.com
John Hutton	Parks Director	John.Hutton@cityoffederalway.com



Profile of the City



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 Interstate 5. Federal Way has grown from a population of 89,540 in 2010 to 96,690 in 2017. 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 government until November 2010, when the citizens elected to change their form of government to Mayor/Council. The Council is composed of seven councilmembers elected at large to four-year terms on a non-partisan ballot. 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 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.

Real Property

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. As an urban city, Federal Way has an inventory of parks for the enjoyment of its citizens that rivals any community. The total acreage of our neighborhood parks is over 130 acres. They include:

1. Adelaide Park is located at 30619 16th Avenue SW with natural, picnic, play areas and a walking trail on 6.7 acres of land.
2. Alderbrook Park is located at 32730 17th Avenue SW with natural, picnic, play areas and a walking trail on 35.69 acres of land.
3. Alderdale Park is located at 2700 SW 340th Place with picnic, play areas and a walking trail on 2 acres of land.
4. Cedar Grove Park is located at 2200 S 333rd Street with natural, picnic, play areas and a walking trail on 2.6 acres of land.
5. Coronado Park is located at 2501 SW 349th Place with a basketball court, picnic, and play areas on 1.2 acres of land. ‘
6. Dash Point Highlands Park is located at 5300 SW 324th Place with natural, picnic, and play areas on 5 acres of land.
7. English Gardens Park is located at 1210 SW 333rd Street with natural, picnic, play areas and a walking trail on 3.4 acres of land.
8. Heritage Woods Park is located at 28159 S 24th Place with picnic, play areas and a walking trail on 4 acres of land.
9. Lake Grove Park is located at 833 SW 308th Street with a basketball court, natural, picnic, play areas and a walking trail on 5 Acres of land.
10. Lake Kilarney Park is located at 34902 Weyerhaeuser Way S with natural, picnic areas and a walking trail on 10 acres of land.
11. Laurelwood Park is located at 2301 S 292nd Street with a basketball court, softball field, natural and picnic areas on 18.28 acres of land.
12. Madrona Park is located at 1508 SW 356th street with natural, picnic, play areas and a walking trail on 19.8 acres of Land.
13. Mirror Lake Park is located at 915 S 315th Street with natural, picnic, play areas and a walking trail on 3.4 acres of land.
14. Olympic view Park is located at 29th Avenue SW and 330th with natural, picnic, play areas and a walking trail on 21.39 acres of land.
15. Palisades Park is located at 5039 Dash Point Road with a basketball court, picnic, play areas and a walking trail on 4.5 acres of land.
16. 312th Sport court is located at SW 312th and 11th Avenue SW with basketball, tennis and Pickleball courts on 2 acres of land.
17. Wedgewood Park is located at 3913 SW 337th Street with natural, picnic, play areas and a walking trail on 3.09 acres of land.
18. Wildwood Park is located at 2315 S 300th Street with natural, picnic, play areas and a walking trail on 2.43 acres of land.
19. WinCo Park is located at SW Campus Drive with small plaza, benches and natural area on 1.6 acres of land.
20. Town Square Park is located at 31620 Pete von Reichbauer Avenue South with a play area, water activities, walking trail and concert area on 4.14 acres of land. It is the City's newest parks 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 for those who prefer information on particular areas of City 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). Users can access the City's overall financial condition and its operational accountability via these reports. These reports will help provide answers to questions such as, "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 on the City's website: www.cityoffederalway.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 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.

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

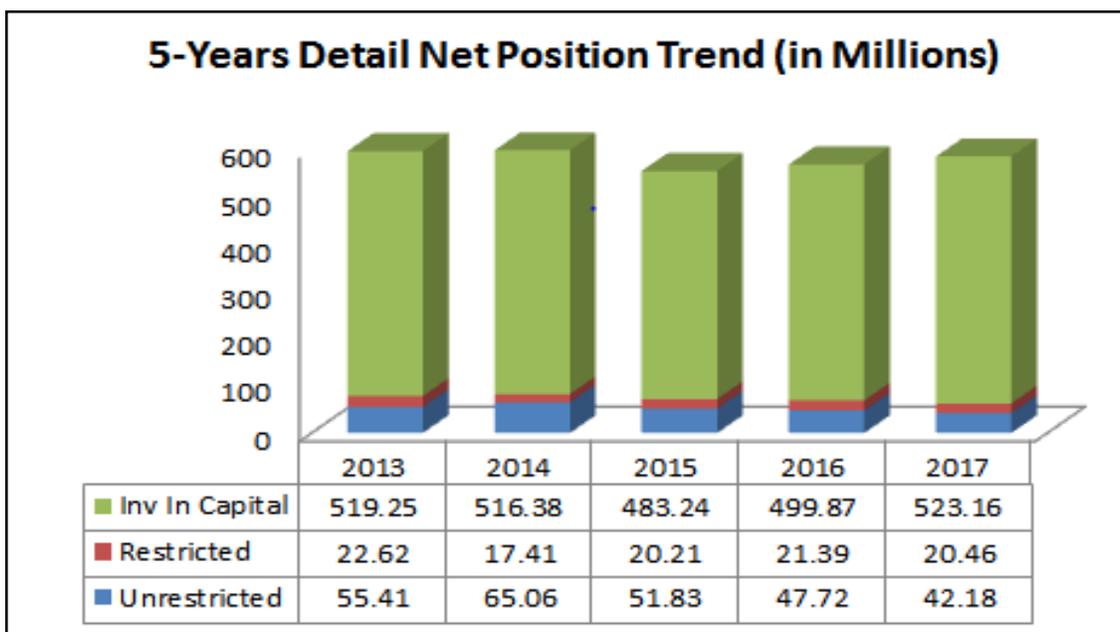
Statement of Net Position (in Millions)			
	Governmental Activities	Business Type Activities	Total Primary Government
Assets			
Current & other assets	\$ 91.71	\$ 8.06	\$ 99.77
Capital assets	481.04	61.87	542.91
Total Assets	572.75	69.93	642.68
Total Deferred Outflows	2.22	0.23	2.44
Liabilities			
Other liabilities	9.32	0.76	10.08
Long-term liability	44.03	1.67	45.71
Total Liability	53.35	2.43	55.78
Total Deferred Inflows	3.32	0.23	3.55
Net Position			
Invested in capital asset net of related debt	461.49	61.67	523.16
Restricted	20.41	0.03	20.46
Unrestricted	36.39	5.79	42.18
Total Net Position	\$ 518.30	\$ 67.50	\$ 585.80

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, 2017. City is a family of companies serving the communities. Included in this family of companies is one utility company designed to run like any business and considered "business-type activities." Several other companies that carry out the functions of general government or that support other companies, are considered "governmental activities."

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

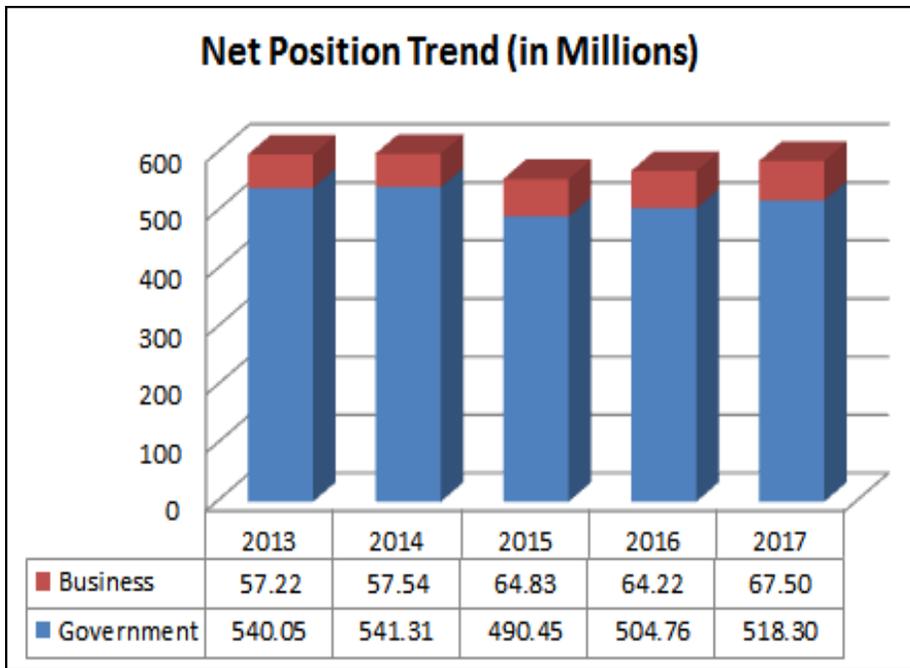
Another factor that should be noted is the restriction and liquidity of the Net Position. The largest portion of the Net Position is invested in capital and infrastructure of the City.



Source Data - City of Federal Way's 2017 Comprehensive Annual Finance Report

Operational Activities

Total net position of the primary government of \$585.8 million at December 31, 2017 increased by \$16.8 million or 3.0% compared to December 31, 2016. The increase is due to governmental type activities increase of \$13.5 million, and business-type activities increase of \$3.3 million. As shown in the graph of Net Position Trend, general government program activities do not generate enough program revenues of their own to cover the cost of services provided. A large part of program revenues in the governmental activities are derived from grants and service fees. Taxes are the major source of revenue used to pay for governmental activities.



Source Data - City of Federal Way's 2017 Comprehensive Annual Finance Report

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

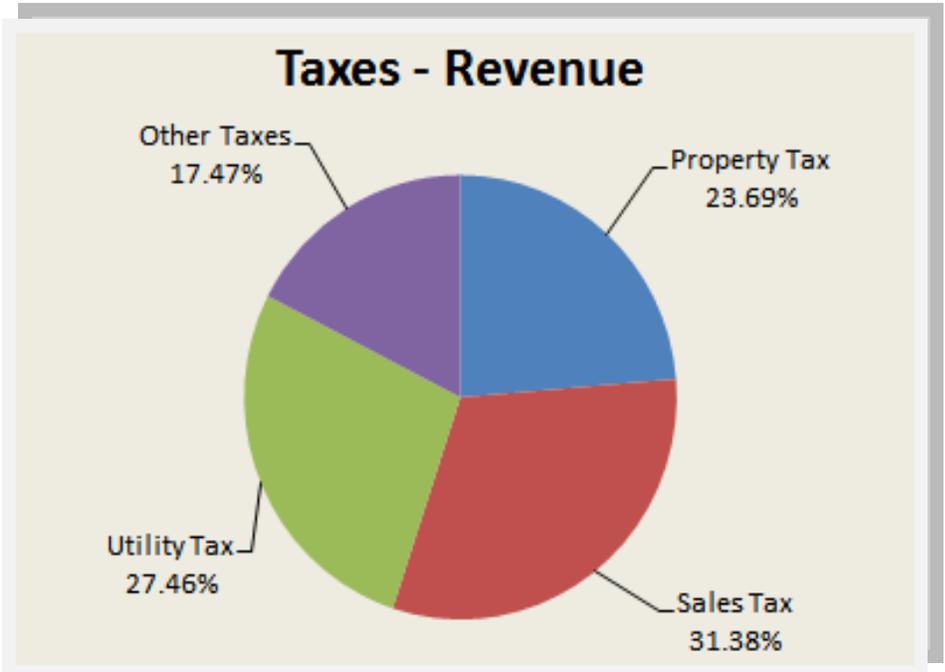
Statement of Activities (in Millions)			
	Governmental Activities	Business-type Activities	Total Primary Government
Program Expense	\$ 70.53	\$ 5.57	\$ 76.10
Program Revenue	38.22	6.13	44.35
Net Expense	(32.31)	0.56	(31.75)
General Revenue			
Property Tax	10.72	-	10.72
Sales Tax	14.20	-	14.20
Utility Tax	12.43	-	12.43
Other Taxes	7.91	-	7.91
Transfer and Other	2.89	1.00	3.89
Total General Revenues and Transfer	48.15	1.00	49.15
Change in Net Position*	\$ 15.84	\$ 1.56	\$ 17.40

Source Data - City of Federal Way's 2017 Comprehensive Annual Finance Report

Unlike most other cities, the larger share of taxes paid to the City of Federal Way are in the form of taxes based on usage; such as sales, utilities, excise, and business taxes. Property taxes account for a smaller portion of the total tax needed to run the general government. As shown in the table of Statement of activities, governmental activities contributed \$15.8 million or 91.0% of the total change in net position of \$17.4 million. Business-type activities of the City's Surface Water Management system and Dumas Bay Centre increased the City's net position by \$1.56 million.

Primary Revenue

The pie chart shows the makeup of 2017 taxes that were used to run the general government activities. Utility tax accounted for 27.46% of the taxes collected and Sales tax accounted for 31.38% of taxes collected. Property tax was 23.69% and other taxes were 17.47%. Sales tax collected in 2017 total \$14.2 million which was \$23,036 or 0.29% less than \$14.2 million of 2016. The collection of Utility tax and property tax has increased 1.17% in 2017. 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.

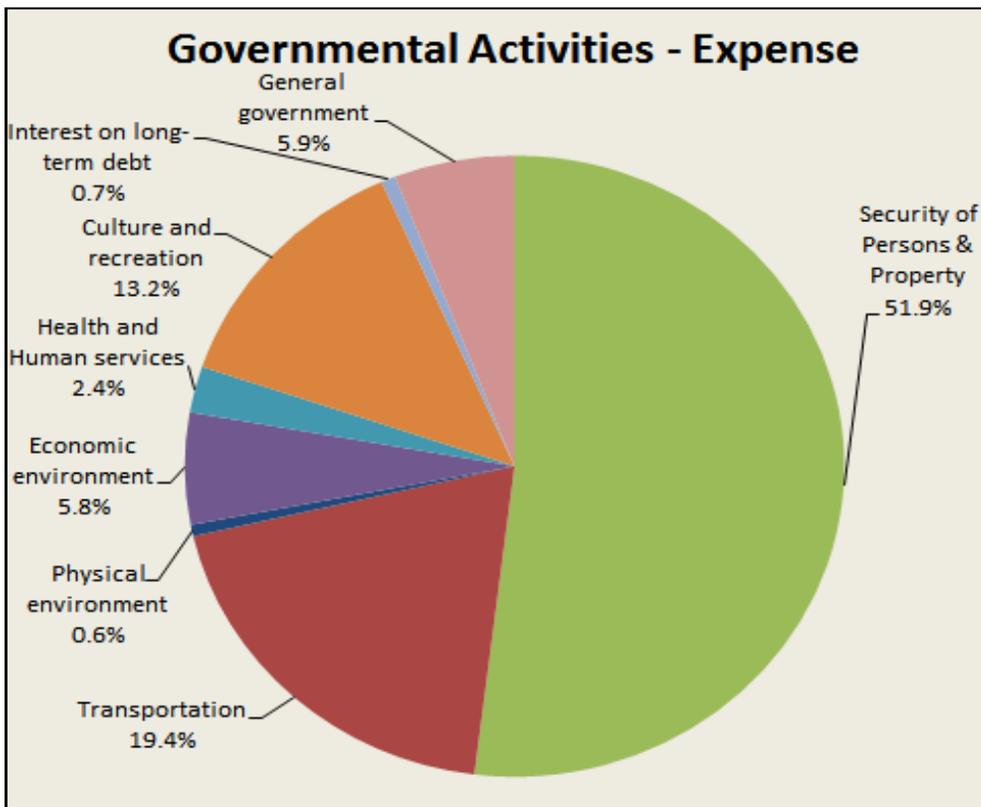


Source Data - City of Federal Way's 2017 Comprehensive Annual Finance Report

Primary Expense

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 51.9% 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 19.4% 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 at 13.2% for maintenance of our parks, community and cultural centers, and for the development of community-related programs and activities. 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.

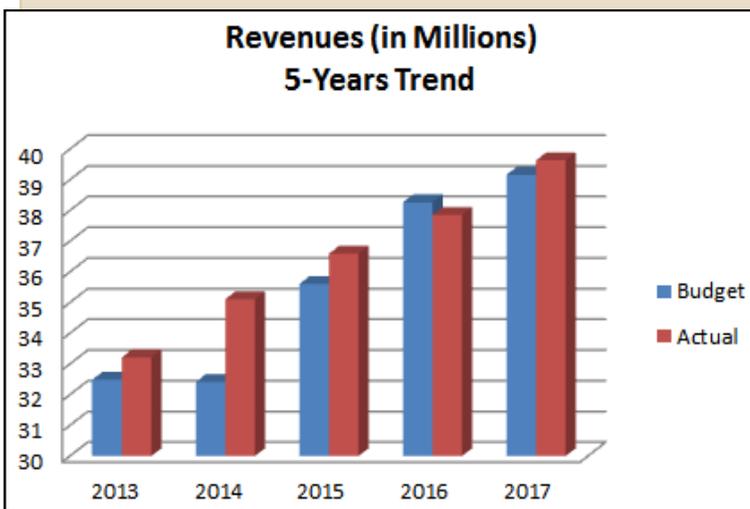


Source Data - City of Federal Way's 2017 Comprehensive Annual Finance Report

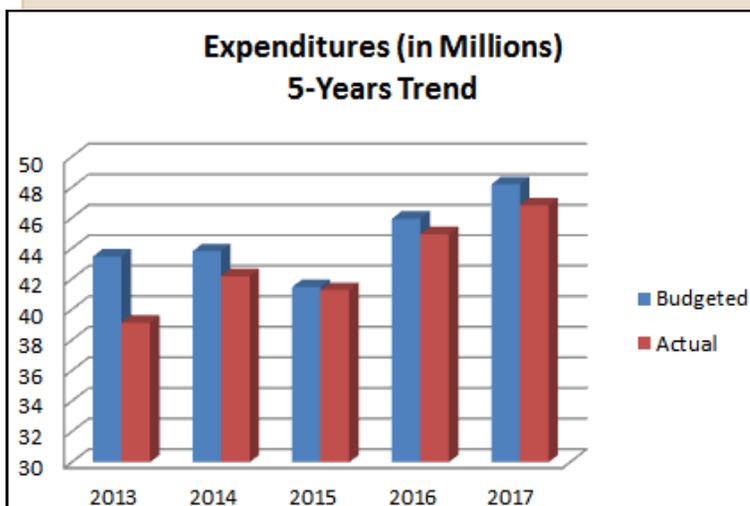
General Fund Highlights

The General fund is the chief operating fund of the City. At the end of 2017, the total fund balance was \$13.8 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 2017 and beyond was \$1.4 million, about 2.99% of the 2017 Total Expenditures.

The actual revenue consistently exceeded the budgeted revenue as shown in the graph below. In 2017, the actual revenue in the General Fund was \$39.63 with taxes accounting for \$28.08 million. More than \$14.20 million was from sales tax and more than \$10.51 million was from property tax. The City saw its lowest revenue in 2013 in the last five years.



The actual expenditures fell behind the budgeted expenditures from 2013 to 2017. The City had its lowest spending in 2013 out of the five years, and the spending increased in 2017 which is the highest in the last five years. The Federal way government spent \$33.71 million or 70 % on Security of persons and property during 2017. The lowest spending is \$0.07 million or 0.1% of Capital Outlay.



Source Data - City of Federal Way's 2017 CAFR

	2017 Budget	2017 Actual
Fines and Forfeitures	\$ 1.01	\$ 0.95
Interest	0.14	0.21
Inter-governmental	2.23	2.31
Licenses and Permits	3.87	3.93
Service Charges and	3.79	3.62
Taxes	27.64	28.08
Other	0.48	0.53
Total	\$ 39.16	\$ 39.63

	2017 Budget	2017 Actual
Clerk	\$ 0.50	\$ 0.59
Community Development	3.12	3.14
Council	0.40	0.38
Court	1.36	1.33
Finance	0.96	0.95
Human Resources	0.46	0.45
Law	1.44	1.40
Mayor	1.35	1.28
Parks and Recreation	3.83	3.88
Police	26.23	26.46
Non-Departmental	8.57	6.97
Total	\$ 48.22	\$ 46.83

Both revenue and expenditure are the highest in 2017 in the last five years. The variance between budget and actual is smaller in the last three years. 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. The city's path to sustainable future is to keep an eye on and control of spending while growing its revenues.

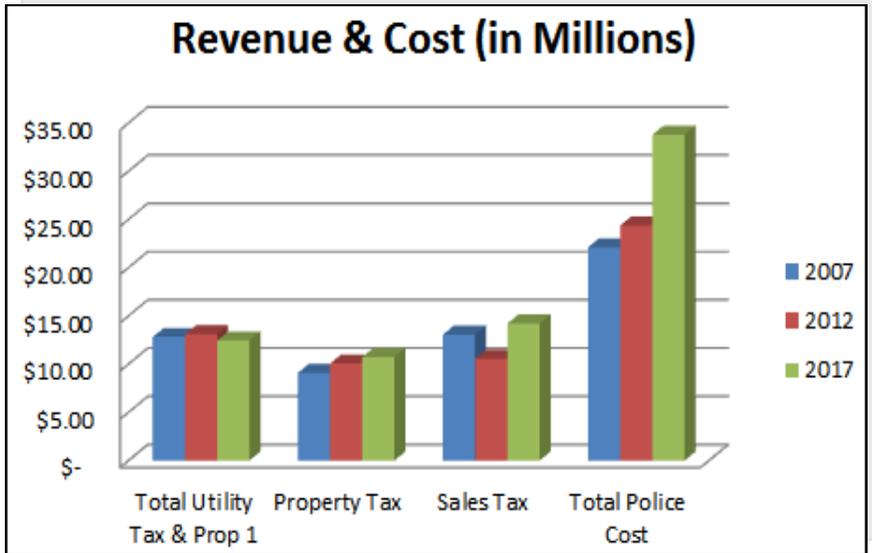
Other Financial Information

Between 2007 and 2012 total utility tax & prop 1 grew by 2.19%, property tax grew by 10.8%, and police spending grew by 10.27%, and sales tax went down by 19.31% .

Between 2012 and 2017, property tax grew by 6.67%, sales tax grew by 34.85%, police spending grew by 27.88%, and total utility tax & prop 1 fell by 4.97%.

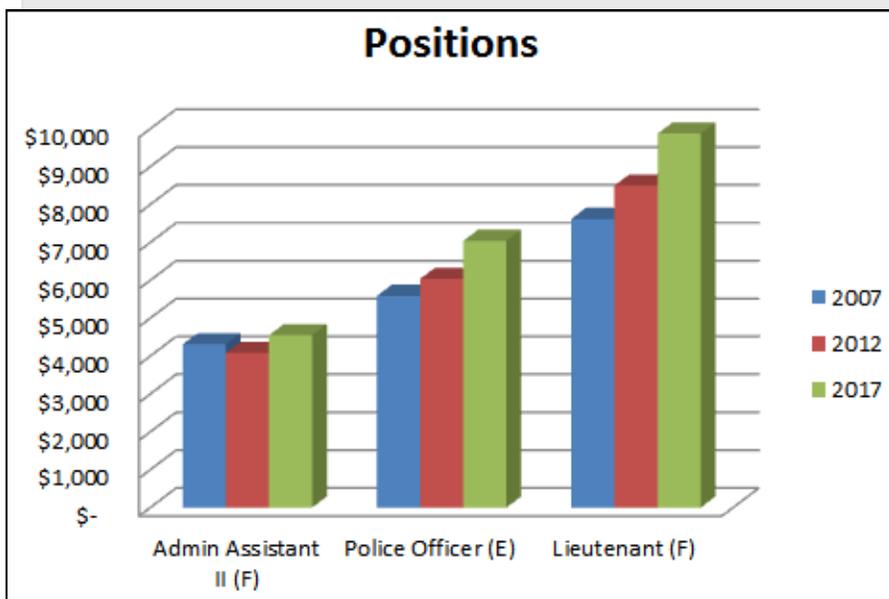
The table above shows the growth in the three major sources of revenue for the city in relation to ensuring the security of its residents. Over the last ten years, City of Federal Way invested a lot of its financial resources on the security of people and properties within its boundaries. A major part of Proposition 1 is spent on our Police Department. The City charges 7.75% tax (1.75% is dedicated to Prop. 1) on utility services except Water and Sewer within its jurisdiction.

Revenue & Cost (in Millions)	2007	2012	2017
Total Utility Tax & Prop 1	\$ 12.80	\$ 13.08	\$ 12.43
Property Tax	9.07	10.05	10.72
Sales Tax	13.05	10.53	14.20
Total Police Cost	\$ 22.10	\$ 24.37	\$ 33.79



Source Data - Finance Office in City of Federal Way

Positions	2007	2012	2017
Admin Assistant II (F)	\$ 4,309	\$ 4,611	\$ 4,918
Police Officer (E)	\$ 5,588	\$ 6,036	\$ 7,040
Lieutenant (F)	\$ 7,618	\$ 8,501	\$ 9,870



Source Data - Finance Office in City of Federal Way

Prop 1 took effect in 2007, and the growth in the labor cost between 2007 and 2017 is a testament to the City's commitment to our law enforcement.

Between 2007 and 2012 police officer's salary grew by 8.02%, lieutenant's salary grew by 11.59%, and admin assistant's salary grew by 7.01%.

Between 2012 and 2017, police officer's salary grew by 16.63%, lieutenant's salary grew by 16.10%, and admin assistant's salary grew by 6.66%.

Between 2007 and 2017, police officer's salary grew by 25.98%, lieutenant's salary grew by 29.56%, and admin assistant's salary grew by 14.13%.

The position table shows the salary of admin assistant, police officer, and lieutenant has increased over the last ten years.

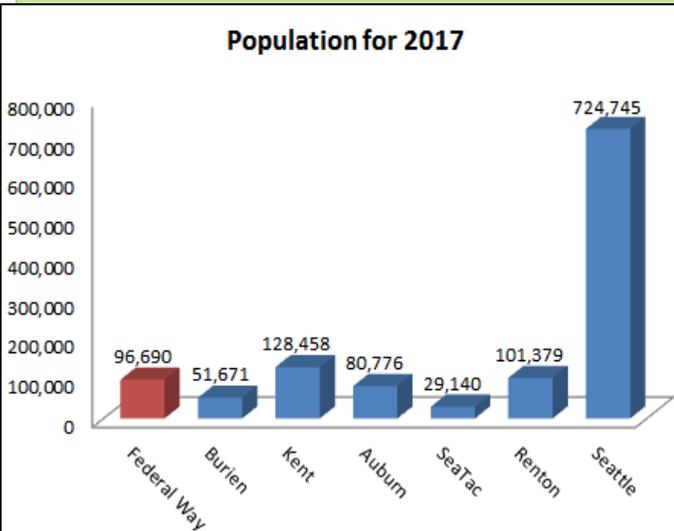
How we stack up regionally



Steel Lake (Federal Way)

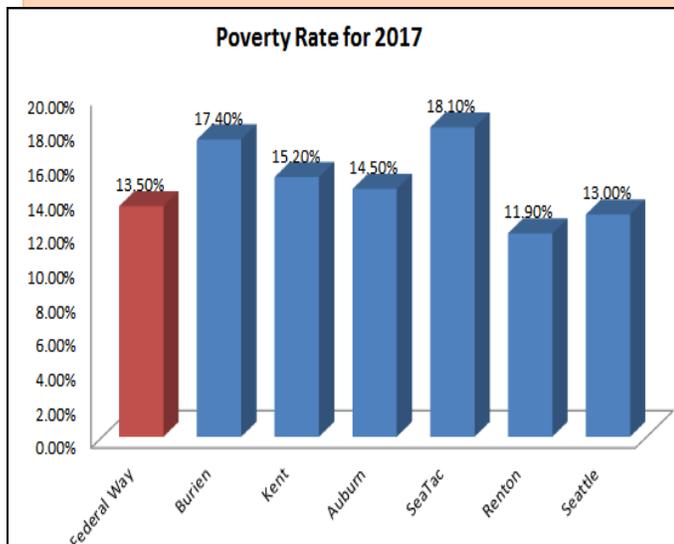
The City of Federal Way is the 9th largest city in the State of Washington and King County is the 13th most populous county in the United States.

By Census.gov

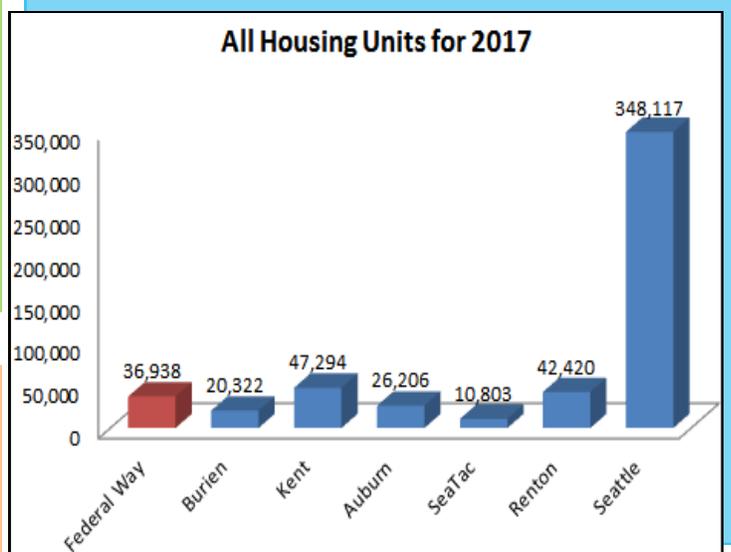


Source Data - Census.gov

The City of Federal Way is the 4th populous city among the comparable cities as shown in the table. According to Census.gov, out of 281 cities in the state, Federal Way is the 9th most populated city.



Source Data - Census.gov



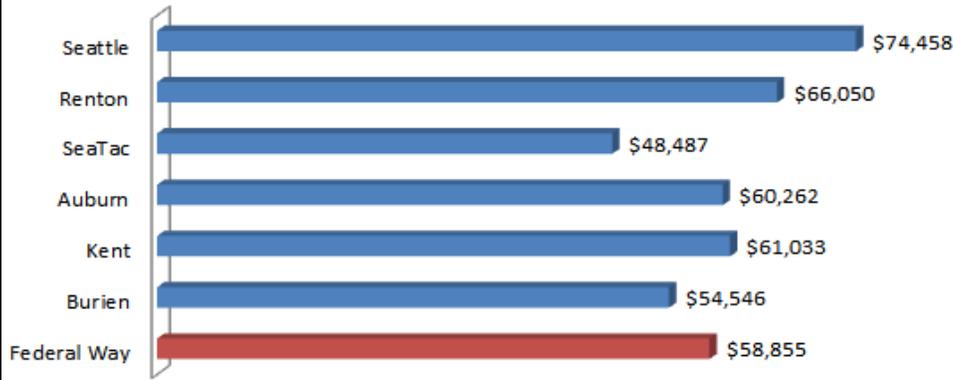
Source Data - Census.gov

The City of Federal Way was ranked 4th compared to other local cities in regards to the number of housing units.



Even though Federal Way is 4th in population among comparable cities, it is ranked 5th in poverty rate.

Median Household Income for 2017



Source Data - Census.gov

Federal Way ranks 5th in median household income at \$58,855. The City of Seattle has the highest at \$74,458.

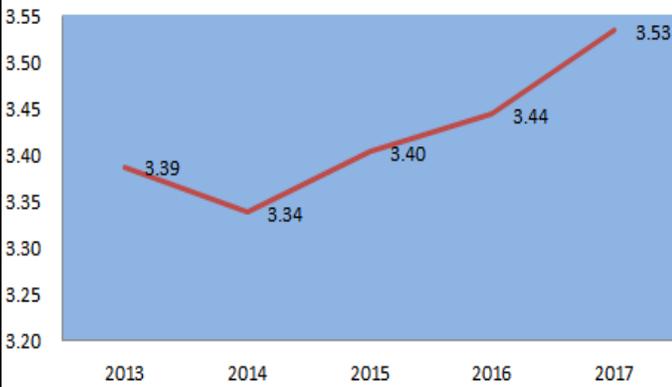
Although the City's FTE per 1,000 residents trend shows stability, budgeted full-time employees has increased from 303.09 FTE in 2013 to 341.70 FTE in 2017.

The City of Federal Way's employment retention rate has decreased from 2017 to 2014 by 2.02%. The City works hard to pay their employees competitive wages.

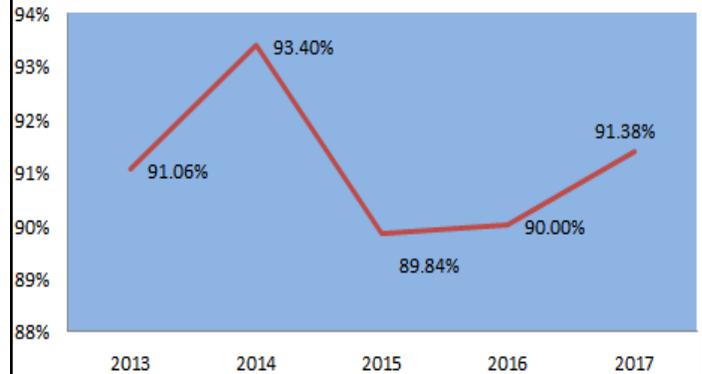
Budgeted Total FTE's

Year	2013	2014	2015	2016	2017
Number of FTE's	303.90	311.88	323.95	333.20	341.70

Total City FTE's per 1,000 Residents (5-Year Trend)



Employment Retention Rate (5-Year Trend)



Source Data - City of Federal Way's Adopted Biennial Budget

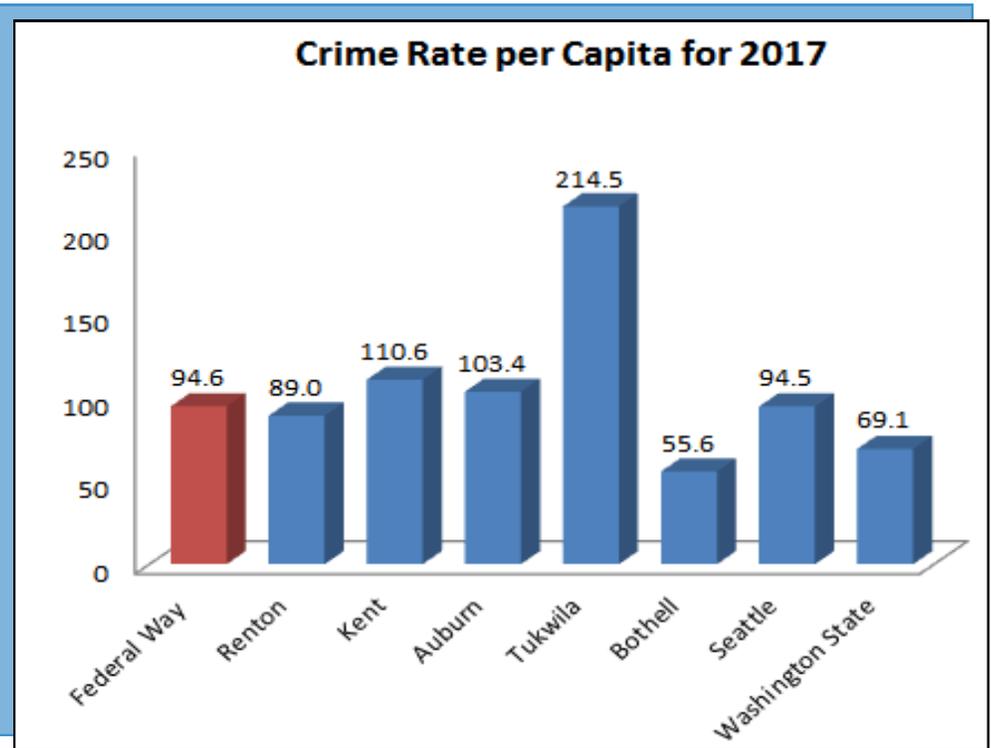


Steel Lake (Federal Way)





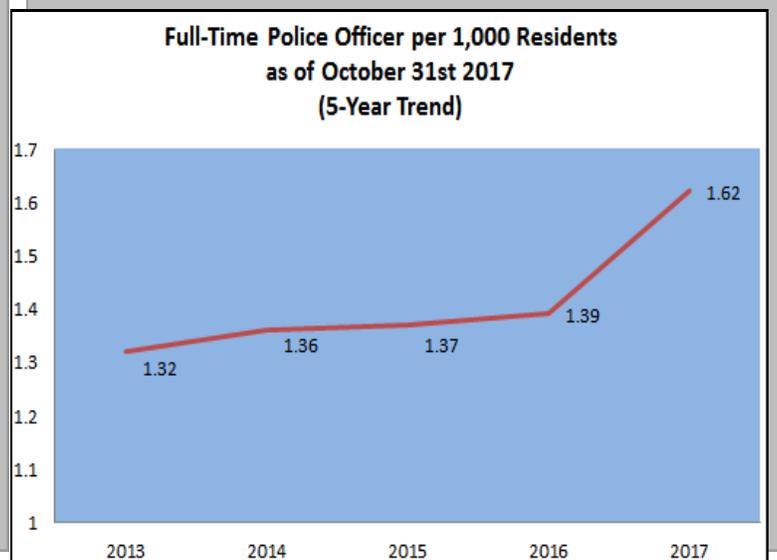
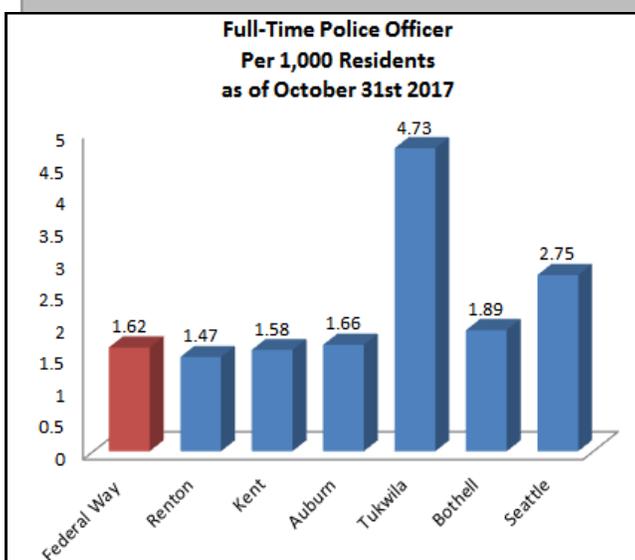
The City of Federal Way ranks 4th in crime rate per capita compared to other local cities. In 2017, 51.9% of the total general government resources were used for the security of persons and property. This will continue to make Federal Way a safe city.



Source Data - Washington Association of Sheriffs and Police Chiefs



In 2017, City of Federal Way's full-time police officers per 1,000 residents was 1.62, which has increased in the last five years. This rate is also higher than most local cities. Tukwila does not have as many residents as Seattle, but it has many shopping centers that require monitoring; and therefore, the highest number of police officers per 1000 residents. The City of Federal Way is working toward being one of the safest cities in King county.

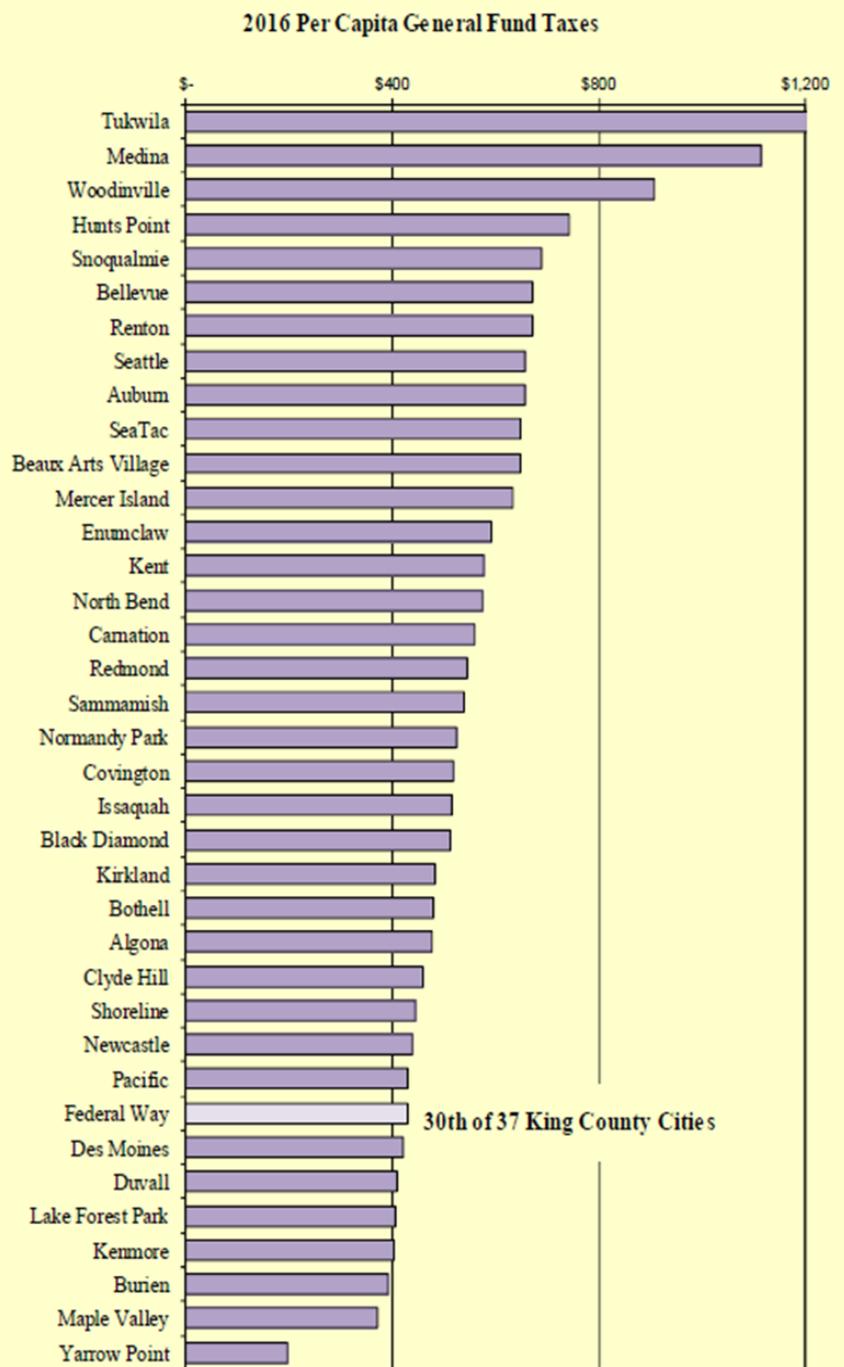


Source Data - Washington Association of Sheriffs and Police Chiefs

Per Capita General Fund

2016 PER CAPITA GENERAL FUND TAX REVENUE FOR KING COUNTY CITIES

City	Population	Per Capita	Rank
Tukwila	19,300	\$ 1,466	1
Medina	3,095	1,114	2
Woodinville	11,240	909	3
Hunts Point	410	742	4
Snoqualmie	12,850	689	5
Bellevue	135,000	671	6
Renton	98,470	670	7
Seattle	662,400	656	8
Auburn	75,545	655	9
SeaTac	27,650	649	10
Beaux Arts Village	300	648	11
Mercer Island	23,480	633	12
Enumclaw	11,140	592	13
Kent	122,900	576	14
North Bend	6,460	575	15
Camation	1,790	559	16
Redmond	59,180	545	17
Sammanish	49,980	538	18
Normandy Park	6,420	523	19
Covington	18,520	518	20
Issaquah	33,330	516	21
Black Diamond	4,200	511	22
Kirkland	83,460	482	23
Bothell	42,640	479	24
Algona	3,105	476	25
Clyde Hill	3,020	459	26
Shoreline	54,500	444	27
Newcastle	10,940	440	28
Pacific	6,840	430	29
Federal Way	90,760	430	30
Des Moines	30,100	420	31
Duvall	7,345	410	32
Lake Forest Park	12,810	405	33
Kenmore	21,500	404	34
Burien	48,810	392	36
Maple Valley	24,700	370	35
Yarrow Point	1,020	195	37
Average:	49,330	\$ 573	37



Source: Local Government Financial Reporting System data from the State Auditor's Office and 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.

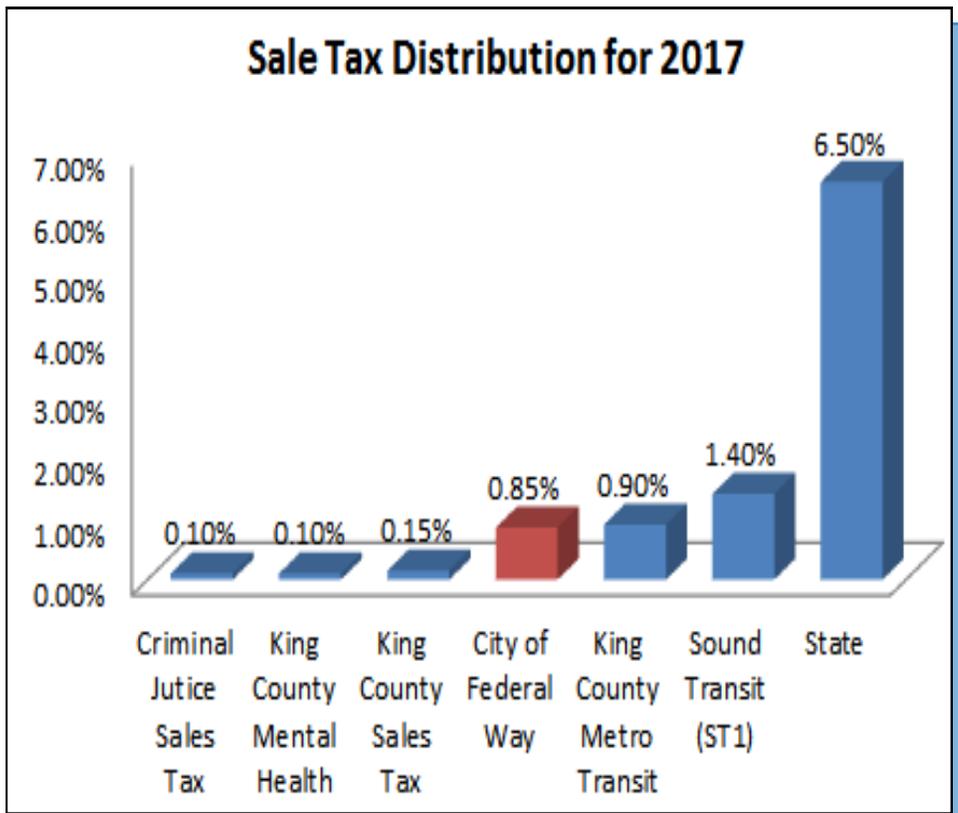
2017 data is not available as of the time of this report.

Sales Tax

Sales tax accounted for 31.38% of the total tax revenue for the city in 2017. The retail sales tax rate in Federal Way in 2017 was 10.00%, which is 0.5% higher than 2016. This translates to ten cents on every one dollars spent. Seven 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. For every dollars paid in sales tax, the City of Federal Way receives 8.50 cents and the state receives 65 cents.



The total sales tax rate for the City of Federal Way is 10.00%, and the state of Washington charges 6.50% (65% of the 10.00%). The actual rate charged by the City of Federal Way is 0.85% (8.50% of the 10.00%). One of the major differences between the sales tax and the 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 the 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 buying locally 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 community.

Source Data - King County Assessor Office

5 Years - Industry Revenue

-	2013		2014		2015		2016		2017	
	% Of Revenue	% By Industry Class	% Of Revenue	% By Industry Class	% Of Revenue	% By Industry Class	% Of Revenue	% By Industry Class	% Of Revenue	% By Industry
Retail Trade (44X&45X)	58%	26%	56%	26%	56%	27%	55%	30%	54%	31%
Services (5XX (not 51X), 6X, 7X, 81X)	20%	24%	20%	24%	20%	23%	20%	23%	21%	22%
Construction (23X)	8%	24%	10%	24%	11%	24%	11%	22%	12%	23%
Wholesaling (423&424)	4%	13%	5%	13%	3%	13%	4%	13%	3%	12%
Information (51X)	4%	3%	4%	3%	5%	3%	5%	3%	5%	3%
Manufacturing (3XX)	2%	6%	1%	6%	1%	6%	1%	6%	0%	6%
Government (9XX)	1%	0%	2%	0%	1%	0%	1%	0%	1%	0%
Other	4%	4%	2%	4%	2%	4%	2%	4%	4%	4%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source Data - Finance Office in City of Federal Way

According to a listing of businesses registered with the City of Federal Way and sorted by the Standard Industrial Classification, the business economy appears to be configured as follows in 2017: retail trade 54%, services 21%, construction 12%, wholesale trade 3%, information 5%, manufacturing 0%, Government 1%, and Other 4%. Other includes transportation and other classifications.

Construction sales tax was based on the construction of buildings in the city. From 2016 to 2017, retail trade fell by 1%, service went up 1%, construction went up 1%, wholesaling fell by 1%, information remained the same, manufacturing remained the same, government remained the same, and other classifications remained the same.

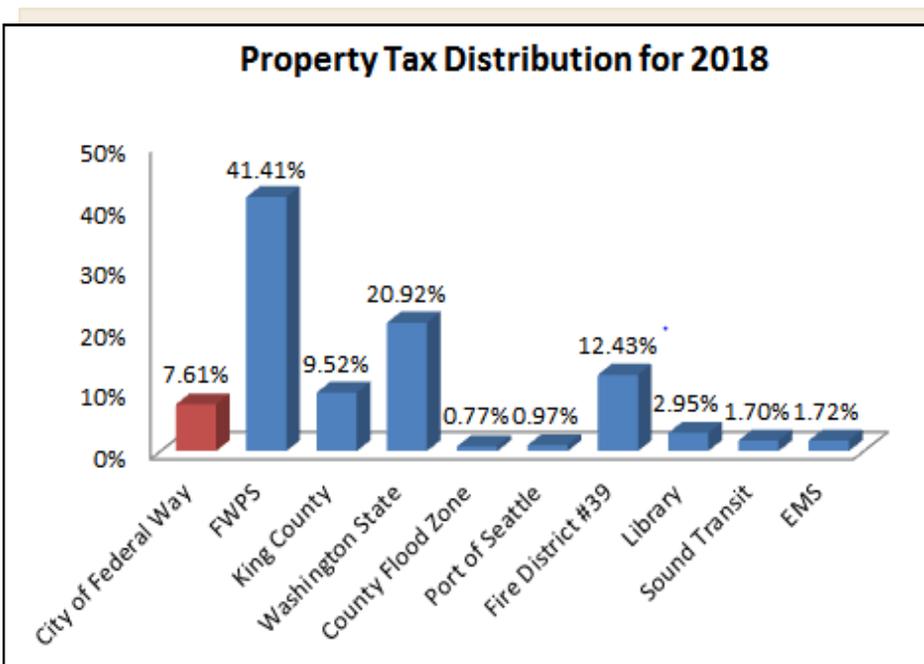
Although retail trade businesses accounted for 31% of the industry it brought in 54% of the sales tax revenue. Also, service business accounted for 22% of the industry, but it brought in 21% of the sales tax revenue.

Property Tax

Property tax is the third largest tax of the three major taxes levied and collected in Federal Way in 2017. The amount levied in 2017 for collection and operations in 2018 was \$13.94728 per \$1,000 of property value. For example, a property worth \$100,000 paid \$1,394.73 ($100,000 / 1,000 * 13.94728$) in 2018 to support the government entities that have taxing authorities on the properties within the City of Federal Way. Out of the \$13.94728 per \$1,000 property tax levied, 50.17% (\$6.99779 out of \$13.94728) was voted on by the citizens of Federal Way. Federal Way School District #210 will receive 41.41% (\$5.77510 of \$13.94728) of the property tax collected in 2018. Washington state, the School District and King County combined will receive 71.85% of the property tax revenue. The tax rates and entities that have taxing authorities on the properties within the City of Federal Way and their tax rates are:

2018	Voted	Non-voted	Total	%
City of Federal Way	-	1.06161	1.06161	7.61%
FWPS	5.77510	-	5.77510	41.41%
King County	0.6363	0.69105	1.32735	9.52%
Washington State	-	2.91820	2.91820	20.92%
County Flood Zone	-	0.10708	0.10708	0.77%
Port of Seattle	-	0.13518	0.13518	0.97%
Fire District #39	0.30190	1.43211	1.73401	12.43%
Library	0.04509	0.36681	0.41190	2.95%
Sound Transit	-	0.23745	0.23745	1.70%
EMS	0.23940	-	0.23940	1.72%
Total	6.99779	6.94949	13.94728	100%

Source Data - King County Assessor Office



Source Data - City of Federal Way's 2017 Comprehensive Annual Finance Report



The City of Federal Way levied the lowest tax rate among the other King County cities for the past ten years. The lowest was in 2009 with \$0.97 per \$1,000 of property value. The \$1.20 per \$1,000 levied in 2012 was lower than the \$1.30 rate levied eight years earlier in 2004. The 2018 rate of \$1.06 per \$1,000 is the lowest among the comparable cities in 2018. In the last six years, the levied rate has declined.

Levy Rate

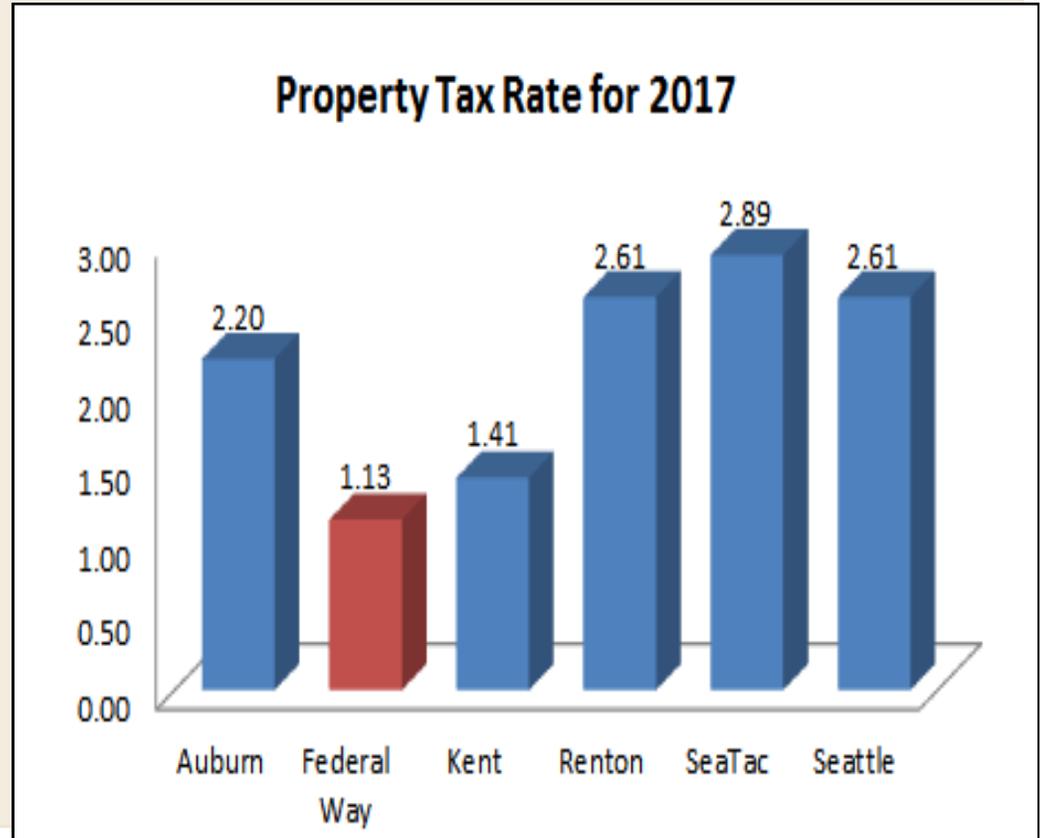
Levy rate is the rate at which taxes, special assessments or service charges are imposed. For example, the real and personal property tax levy is the rate at which property is taxed per \$1,000 of assessed valuation. The rate is determined by calculating the ratio of the maximum amount of property tax revenue allowable under state law and the total assessed valuation within the taxing district.

Property Tax Rate	2009	2010	2011	2012	2013	2014	2015	2016	2017
Auburn	1.49	1.82	1.93	2.08	2.10	2.17	2.08	2.05	2.20
Federal Way	0.97	1.13	1.20	1.30	1.42	1.40	1.25	1.19	1.13
Kent	2.18	2.36	1.48	1.57	1.69	1.65	1.58	1.51	1.41
Renton	2.37	2.71	2.83	3.10	3.10	3.15	2.83	2.71	2.61
SeaTac	2.34	2.58	2.80	2.88	3.10	3.10	3.16	3.00	2.89
Seattle	2.86	3.23	3.36	3.58	3.29	3.05	2.62	2.77	2.61

Source Data - King County Assessor Office

Among King County cities, the City of Tukwila levied the highest property tax in 2017 at \$2.91864 per \$1,000 of assessed value. The City of Hunts Point levied the lowest at \$0.25886 per \$1,000 of assessed property value. The City of Seattle levied \$2.36209 per \$1,000. As shown in the table above, the City of Federal Way has levied the lowest property tax rate every year among the comparable neighboring cities since 2009. Out of the last ten years, Seattle levied the highest property tax rate six years, SeaTac three years and Renton one year.

According to the King County Assessor's Office, the City of Federal Way has 25,553 parcels on its tax rolls in 2017. Out of the 25,553 parcels, 20,316 parcels are considered residential, 3,867 condominium, 1,370 commercials, and the rest are considered undeveloped land. The City of Federal Way received \$10.72 million property tax in 2017. Expenditure for Security of Persons and Property was \$36.63 million in 2017. To give a benchmark, property tax equates to 29.26% of the expenditures for Security of Persons and Property.



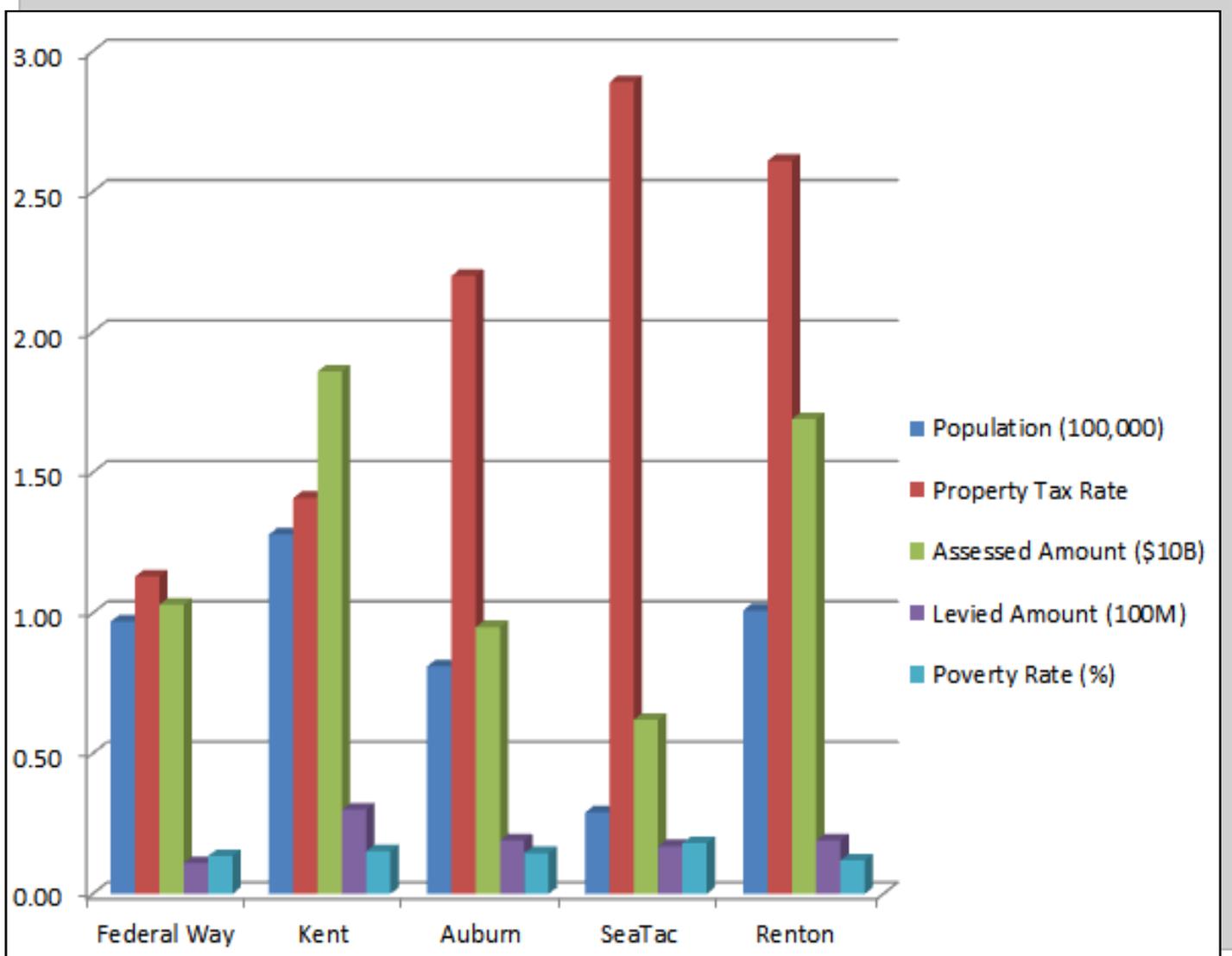
Source Data - King County Assessor Office

Ranking

For levy year received in 2017 in Federal Way, the City's regular tax levy was \$1.13118 per \$1,000 on an assessed valuation of \$10,301,293,691 for a total regular levy of \$10,859,759.

Property Assessed Amount and Levied Amount in 2017						
Column1	Population*	Property Tax Rate**	Assessed Amount**	Levied Amount **	Poverty Rate (%)	Ranking (P,R,A,L,P)
Federal Way	96,960	1.13	10,301,293,691	10,859,759	13.50%	3,5,3,5,4
Kent	128,458	1.41	18,597,339,729	30,137,002	15.20%	1,4,1,1,2
Auburn	80,776	2.20	9,456,889,326	19,136,996	14.50%	4,3,4,3,3
SeaTac	29,140	2.89	6,165,328,557	16,892,230	18.10%	5,1,5,4,1
Renton	101,379	2.61	16,909,050,051	19,423,509	11.90%	2,2,2,2,5
Seattle	724,745	2.61	214,109,064,214	503,981,703	13.00%	

* Census.gov ** 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, disabled citizens were included in the program. To qualify for this program, a person requesting reimbursement for the amount of city utility taxes imposed during the previous calendar year 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 the City of Federal Way and neighboring cities:

Utility	Auburn	Burien	Federal Way****	Kent*	Renton**	SeaTac***
Cable Franchise Fee	5.00%	5.00%	5.00%	5.00%	5.00%	No utility tax
Cable TV	6.00%	6.00%	7.75%	6.00%	6.00%	
Electric Rate	6.00%	6.00%	7.75%	6.00%	6.00%	
Gas	6.00%	6.00%	7.75%	6.00%	6.00%	
Phone/Cellular Phone	6.00%	6.00%	7.75%	6.00%	6.00%	
Sewer	7.00%	0.00%	7.75%****	9.5%*	6.00%	
Solid Waste	7.00%	6.00%	7.75%	18.40%	6.80%	
Storm Water	7.00%	0.00%	7.75%	19.50%*	6.80%	
Water	7.00%	0.00%	7.75%****	13.00%	6.80%	

Source Data - Cities Adopted Biennial Budget

Kent*- In 2017, the City lowered the tax on sewer services from 13 percent to 9.5 percent and raised the tax on drainage services from 13 percent to 19.5 percent

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

SeaTac***- On October 28, 2014, SeaTac City Council passed Ordinance #14-1015 which establishes 6% utility taxes of electric energy, natural or manufactured gas, surface water management, telephone, cable television business , and 5% solid waste

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

Water & Sewer**** - The City levied utility tax on water and sewer in 2018 but Lakehaven Utility District is challenging the City's authority in court. We may not see the money if the City wins for few years

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 this 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 the 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.



Admissions Tax Starting in 2017, the City will add a 5% admissions tax upon any person who is charged an admissions fee to any place, including persons who are admitted free of charges, or at reduced rates to any place in the amount of five percent of the admission charge.

Other Taxes	Auburn	Burien	Federal Way	Kent	Renton	Seatac
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%	5.00%	3.00%	10.00%	5.00%	5.00%
Chartable Pulltab/Punch Boards	10.00%	5.00%	10.00%	10.00%	5.00%	5.00%
Card Rooms	4.00%	8.00%	10.00%	11.00%	10.00%	10.00%
Admission	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Amusement Games	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

Source Data - Cities Adopted Biennial Budget

Long-term Debt

In February 2017, Moody's Investors Service upgraded from Aa3 to Aa2 rating for the City's 2013 Limited Tax General Obligation Refunding Bonds. Moody's Aa2 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 credit risk.

As of December 31, 2017, the City of Federal Way had total debt principle balance outstanding of \$32.7 million. This amount comprises of \$10.88 million of 2013 Refunding of Community Center General Obligation Bonds, \$13.71 million of SCORE Special Obligation Bonds, \$8.21 million of 2014 Key Bank Bond, 2016 HUD Loan \$2.93 million, and \$0.29 million of Public Works Trust Fund Loans.

Annual Debt Service (in Millions)						
	Governmental Activities			Business-type Activities		
Year	Principle	Interest	Total	Principle	Interest	Total
2018	0.915	0.867	1.782	0.096	0.002	0.098
2019	0.944	0.839	1.783	0.096	0.001	0.097
2020	0.974	0.809	1.783	0.000	0.000	0.000
2021	1.016	0.771	1.787	0.000	0.000	0.000
2022	1.058	0.732	1.79	0.000	0.000	0.000

Source Data - City of Federal Way's Adopted Biennial Budget

Sortable Table Key	Moody's
Highest grade credit	Aaa
Very High grade credit	Aa1, Aa2, Aa3
High grade credit	A1, A2, A3
Good credit grade	Baa1, Baa2, Baa3, Baa4
Speculative grade credit	Ba1, Ba2, Ba3
Very speculative credit	B1, B2, B3
Substantial risks - In default	Caa1, Caa2, Caa3, Ca

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." Washington state statutes limit the amount of debt a government entity may issue to 7.5% of its total assessed valuation, subject to 60% majority vote of qualified electors. Of the 7.5% limit, 2.5% is for general purposes, 2.5% for open space/park facilities, and 2.5% for utilities. Non-voted general purpose indebtedness is limited to 1.5% of assessed valuation and the combination of voted and non-voted general purpose indebtedness cannot exceed 2.5% of assessed valuation. The City's taxable assessed valuation for 2017 was \$10.227 billion and the total amount of debt the City may issue is \$737.9 million. Remaining legal debt capacities as of December 31, 2017 are:

General government (no vote required)	\$124,321,295
General government 3/5 majority vote required	\$102,268,064
Parks and Open space 3/5 majority vote required	\$255,670,161
Utilities 3/5 majority vote required	\$255,670,161

The City has a debt capacity of \$226,589,359 (\$124,321,295+\$102,268,064) 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

STEADY GROWTH AHEAD. 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. 2017 continued the city’s success in securing grant funding including a \$400,000 Transportation Improvement Board (TIB) grant for a sidewalk project on Dash Point Road in front of Sacajawea Middle School; a \$952,000 Federal Grant for a preservation grant on Campus Drive SW between 19th Ave SW and 1st Ave S; and a \$692,000 Federal Grant for a preservation grant on 16th Avenue S between S 348th Street and Pacific Hwy S. Located at 31510 20th Avenue South. The City also had the grand opening of its Performing Arts and Event Center (PAEC) in the summer of 2017. The City started construction of this project in 2015. The City is working with a private developer to build a hotel next to the PAEC.



The King County area had its lowest unemployment rate of 3.1% in April 2017, against the state overall rate of 4.7%, 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.

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

Employer	Type of Business	Number of Employees
Federal Way Public Schools	Education Services	2,987
St.Francis Hospital	Medical Services	1,209
World Vision Inc.	Christian Relief agency-Nonprofit	854
Wild Waves	Amusement Center	635
US Postal Services-Bulk Mail	Postal Services	600
Davita	Health Services	503
Wal-Mart	Retail	496
City of Federal Way	Government Services	476
Virginia Mason Federal Way	Medical Services	253
Weyerhaeuser Company	Lumber Products	28

Source Data - City of Federal Way’s 2017 Comprehensive Annual Finance Report



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