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Introduction

This section outlines the elements of our long-range financial planning process.

First, we recap the Strategic Plan for Fiscal Year 2008. Our Mission Statement, Core Values and Outcomes are summarized over the next few pages.

Following is the Fiscal Year 2008 Business Plan Environmental Scan, which is an overview of the economic and developmental forces at work in the community describing changes in the demographic, technological, legislative and service demand areas.

We also look outside our organization at other cities and private sector competitors to see what levels of service and operational strategies are being used throughout the world. We believe in using “best practices” to model our systems.

Future enhancements to this document will provide reviews of the results from our Financial Trend Monitoring System, a tool that we use to monitor our relative performance in some key financial measures.

All of the tools listed above are used in the development of the Forecast. This is where we attempt to anticipate the impact of our changing environment, as well as plan for future operational and capital expenditures. A brief overview of our significant Revenue Sources follows on page C-16.

Based on our forecasts, we have created a financial strategy for the short-term that positions us to best plan for the long-term trends and conditions.

Lastly, a Debt Management Overview is provided with brief explanations of debt purposes and debt trends.

Mission Statement

A community working together to provide an exceptional quality of life.



Core Values

Leadership

We will lead by example, learn from the past, provide direction for the present and plan for the future.



Commitment to Excellence

We will achieve measurable success and continuous improvement through investment of resources, accountability and high expectations for quality.



Diversity

We will utilize our differences to encourage participation, opportunity, equality, respect and responsiveness to our community.

Integrity

We will conduct ourselves in an honest and ethical manner to earn the trust of employees and citizens.



Empowered Workforce

We will cultivate a work environment which offers employees the authority to act through supportive leadership, mutual respect, trust, personal responsibility and open communication.



Social Responsibility

We will enhance the quality of life for all citizens through partnerships and programs that embrace cultural diversity, safety and community involvement.

Outcomes

Enriched Organization Workforce

Promote career development and education opportunities by offering leadership training classes and classes from the City University. Recruit, hire and retain highly skilled employees by developing a Benefits Summary Booklet, providing an Employee Wellness Clinic, revising the Employment Webpage, to provide helpful information for job applicants and structure a competitive retirement benefits package.



Enriched Community Workforce

Establish area "Workforce Development Partnerships" with area schools by developing a power academy to attain a skilled workforce for Lakeland Electric. Develop a Medical District Master Plan in partnership with stakeholders and to encourage the development of high-skilled labor sectors. Promote diverse cultural opportunities.



Sustainable Business Environment

Support area economic development initiatives by establishing the small aircraft transportation program with a goal of achieving an active and expanding role in this new aviation transportation system. Explore the potential of related research business/industry park development opportunities to expand employment and community tax base promoting high skilled high wage employment opportunities.



Informed and Engaged Employees

Promote an organizational culture characterized by open communication and employee involvement by implementing a 360 degree feedback process, conducting periodic surveys and providing feedback, promoting a Suggestion Box program and establishing monthly meetings between Department Heads/Directors and their respective workgroups.

Informed and Engaged Community

Promote effective communications with all residents and stakeholders by providing a website for citizens to provide feedback to City officials and develop Lakeland Government Network (LGN) as a media brand that includes a stand alone cable television station and internet webcast channel to encourage community spirit, educational progress and local government support.



Encourage a shared sense of community and responsibility through citizen education and involvement by establishing a section on the City website providing information on City Services and how the City compares to other benchmark organizations. Explore and develop citizen education and increased involvement in the process of local government through the efforts of the Citizens and Employee Boards and Committees program.

Optimal Management of Existing Financial Resources

Develop financial benchmarks for all municipal operations and services. Implement a process improvement program throughout the organization and develop key success indicators aligned to outcomes, integrating budgetary planning with performance management to enhance strategic and budgetary planning with performance measurement systems. Develop and implement a methodology to recover the cost of municipal services that are being financed from general tax revenues; providing an improved process for matching revenues to programs.

Develop New Financial Resources

Develop public/private initiatives to enhance the City's revenue capacity. Establish perpetual care funds (or endowments) for public and private contributions.

Outcomes

Quality Developments

Review planning development and design standards to ensure every new development is sustainable and enhances the City's built environment. Implement a transition from the development of individual neighborhood plans to a more comprehensive sector planning approach. Develop reliable and efficient infrastructure systems that support desired urban development.

Safe, Attractive Neighborhoods

Promote public safety initiatives and projects that enhance property values such as implementing the city-wide sidewalk program, design and construction of new streetscape projects in the Downtown and expand fire rescue services in southwest Lakeland. Counteract the physical and economic decline of neighborhoods by pursuing the acquisition and recycling of vacant and abandoned lots into the private housing market. Empower residents to address neighborhood safety concerns through activities of the Neighborhood Association Coalition.



Quality Public Spaces

Landscape and beautify neighborhoods in collaboration with neighborhood associations. Expand and improve Library facilities and services in response to community partnerships and identified needs. Expand Parks facilities and services pursuant to adoption of Parks and Trails Master Plan. Preserve and enhance unique natural and historic resources.



Superior Municipal Services

Establish "Best Practices" benchmarks by meeting necessary requirements for compliance to Clean Air Interstate Rules, conducting residential and commercial customer satisfaction surveys and establish performance measures that can be used to benchmark the City to other government agencies.



Support the Arts and Wellness

Work with the Imperial Symphony towards developing a joint grant application with the Community Foundation in order to develop a funding source that will provide additional arts programming for the Lakeland Center and Community. Develop a partnership with local artists in order to showcase local artist work on an on-going basis through public art displays.



Support Education

Partnership with Polk County School Board to supply computer training to residents at community centers. Visit local schools promoting utility programs, electrical safety and conservation. Play an active role in master planning and development of the proposed USF campus to encourage meeting the educational and workforce development needs in concert with the High Skills Initiative.

Environmental Scan

Economic Analysis

The U.S. economic expansion continues in 2007, though not as brisk as prior years, solid growth is forecasted to continue into 2008. After growing more than 3% in 2006, the U.S. Gross Domestic Product (GDP) growth slowed to an annualized rate just over 0.5% in the first half of 2007, representing a much slower pace than the prior four years. This decrease is in direct relation to the current housing struggles as they are associated with consumer lending and borrowing. Declined wealth through housing values has also had a variable affect on consumer confidence. Rising delinquency and foreclosure rates along with speculative investors continue to push property values down. Large quantities of newly built and unsold homes have flooded the market, further enhancing the construction slowdown. Overall, the U.S. housing market continues to dampen 2007 economic expectations.

The U.S. labor market remains strong with unemployment rates holding at 4.5%. Payroll job growth expansions through the first half of 2007 averaged 145,000 new jobs per month. This number represented a 22% decline from the 187,000 average new jobs per month posted in 2006. Despite this slowed payroll growth, labor compensation continues to grow at a steeper pace than 2006.

Consumer spending in the U.S. currently accounts for two thirds of all economic activity. After a booming 4.2% growth rate in the first quarter of 2007, consumer spending has declined slightly, representing a predicted stabilization. Accounting for this decline is the demand for automobiles, furniture and building supplies. Of these industries, furniture and building materials have taken the most direct impact from the currently slumping housing market. Though the downturn in the housing market has had a significant impact on the economy, it is expected to ease over time. Originally forecasted to ease in 2007, the current decline is lagging with slow home sales and could last slightly longer than originally anticipated.

As economic growth remains moderate, core inflation remains a noteworthy concern. The consumer price index (CPI) is expected to rise by 2.3% in 2007 indicating a steady increase in the prices paid for consumer goods. With summertime oil prices approaching \$77 per barrel and energy prices fluctuating, inflation indicators remain unclear of a projected pattern. Also affecting the CPI, are

projected increases in unemployment figures. Though the increase should help compensation levels, it will also relate to a tighter job market.

Despite a somewhat slow start to 2007, many economists believe the national economy is rebounding and will continue to grow at a moderate pace keeping track with prior years of expansion.

Legislative News – Property Tax Reform

As always, the City of Lakeland faces a number of legislative issues in the year to come. Of these impending items, none has a greater potential impact on Florida's residents than the much debated Property Tax Reform.

Several years of exceptional appreciation in the value of real property have created a systematic divide among Florida's property owners. Over the last five years, double digit appreciation has provided a considerable amount of wealth to property owners in many areas of the State. Conversely, these escalated property values have created a substantial property tax burden. Taxes on properties have outpaced many Floridians ability to pay and new residents to the state are finding home ownership simply unattainable. In Lakeland, property appreciation rates have been much lower than many larger metropolitan areas and especially in coastal communities. Cities of Lakeland's size within the interior portion of the state experienced only two years of double-digit appreciation. The Save Our Homes Amendment, created to protect property owners from dramatic increases in taxable value has insulated many of Florida's property owners, making it difficult to relocate within the state because of the substantial loss in tax benefits. The systematic inequities associated with increased valuations have created a number of issues with no simple solution. As a result of this growing concern, Governor Bush, in June of 2006, issued an executive order establishing the Property Tax Reform Committee. In the summer of 2007, Legislatures approved the first phase of what could be the largest tax cut in Florida history.

Local governments will have to limit the growth in their tax collections to the range of personal income growth in Florida.

Environmental Scan

Specifications regarding the Property Tax Reform are as follows:

In many cities, property tax in Florida is the single largest tax source currently used to fund government. Reserved for local governments to use in funding a wide variety of public goods and services, property taxes typically account for 25% to 50% of local governments revenues. In Lakeland's case, approximately 19% of the General Fund is financed from property taxes.

Phase I

- Cities, counties and special taxing districts are required to freeze their tax collection revenues at this year's level and then make additional cuts ranging from 3% to 9%.
- Local governments will have to limit the growth in their tax collections to the rate of personal income growth in Florida, plus taxes on new construction.

Phase II

- On January 29, 2008 a constitutional amendment will be on the ballot allowing registered voters to decide on the so called "super-sized" homestead exemption. If approved by 60% of the voters, it would give homesteaded property owners a choice between keeping their existing exemptions and caps or moving to the super exemption.
- If approved, voters that opt to utilize the super exemption will give up their Save Our Homes cap which limits the increase in a homes taxable value to 3%, in exchange for a new exemption that shields 75% of a homes value from taxation up to \$200,000. It exempts an additional 15% in value between \$200,000 and \$300,000. Homeowners would be guaranteed a minimum exemption of at least \$50,000.

Land Development Trends

Residential

In 2006, the City of Lakeland continued to expand upon the booming central Florida real estate market issuing 544 single-family residential construction permits and issuing multi-family permits which accounted for additional 1,158 units. As most of the state slowed in 2007, new residential construction in Lakeland remained on a steady pace as consistently demonstrated in the prior two years.

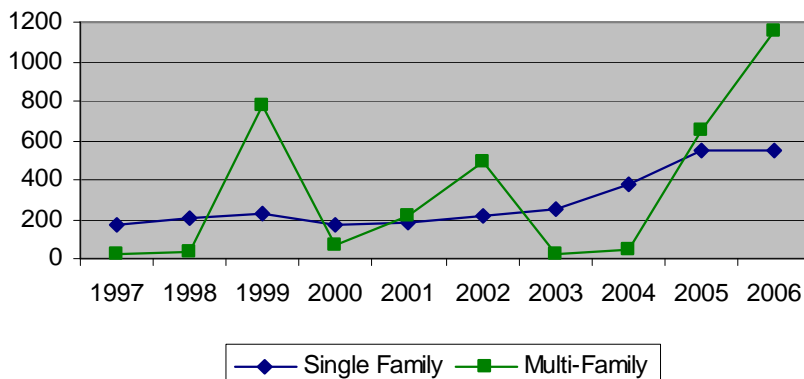
Geographically, the city limits continue to expand through annexation. With an estimated size of 73.3 square miles and population at 91,623 Lakeland is the 22nd largest city in Florida with densities much smaller than other cities of this size. With the voluntary annexation of more than 1,500 acres of vacant land in southwest Lakeland, the City is continuing to experience a great deal of new residential activity. Developers in southwest Lakeland have plans for more than 4,000 single and multi-family units. Northeast Lakeland continues to gain momentum with the construction of the Bridgewater Development of Regional Impact (DRI) and the future plans for the Williams DRI. Complementing the City's well rounded growth in the southwest and northeast Lakeland, residential redevelopment activities in central Lakeland have surfaced as an emerging trend. In-fill lots and consolidated building projects, though currently account for a small percentage of new activity, are gaining popularity with larger residential redevelopment activities on the horizon. As a whole, residential development continues to provide a solid economic foundation for the City's local economy.

As growth continues to follow the high-tech corridor of I-4, the City of Lakeland has become the center of a mega-geographic area. At just over 30 miles from Tampa and 50 miles to Orlando, an estimated 8.5 million people live within a 100 mile radius of Lakeland. These numbers, along with a favorable economy, will result in the City's continued expansion in residential development.

Industrial

Despite the apparent residential real estate slow down, Lakeland's industrial market is thriving. With an increase of nearly 4,000 jobs in 2006 and the in-migration of 10,000 people from the Tampa Bay and Orlando Metropolitan Statistical Areas (MSA's) Lakeland's economy continues to expand.

Residential Construction Units



Environmental Scan

Lakeland's ideal logistical location has made it a hub for industrial real estate. New company relocations and numerous expansions by existing companies have created a significant decrease in the vacancy rate of existing buildings. As vacancy rates decrease and demand increases, the rental rates for available industrial space continue to rise. Current rental rates for industrial property are averaging \$4.97 per square foot (psf); this represents nearly a 4% increase from the summer of 2006. With increased demand, rental rates for Lakeland's most abundant property type, warehouse/distribution space, are averaging \$4.74 psf mid-way through 2007.

The City of Lakeland expects the industrial market conditions to continue to experience high levels of leasing and demand activity, thus providing a continued increase in rental rates. With nearly 1.4 million square feet of new industrial/warehouse space currently under construction, Lakeland can anticipate construction levels to surpass those experienced in 2006.

Customer Expectations

The most important element of the strategic planning process which precedes the Business Plan is identifying and understanding customer requirements. We use several sources of data, including:

Comprehensive Citizen Surveys - Beginning in 2001, we have used surveys to measure satisfaction and solicit opinions on a variety of services and policy issues.

Stakeholder Group Meetings - An intensive workshop for community stakeholders aimed at determining the critical long-term issues facing the City. In addition to facilitated meetings designed to solicit input from stakeholders and experts on narrow topics selected for their strategic value.

Neighborhood Meetings - Meetings held throughout the City in an open forum.

Emerging and Legislative Issues

The City's legislative concerns, especially in the long-term, fall into two basic categories. First, is the issue of "home rule", where the authority of the City's elected officials is being usurped by other, higher levels of government. The ability of the City

to collectively bargain, govern and regulate such issues as zoning and land usage is under constant threat. Second, unfunded mandates are a significant financial threat to the City. These mandates may appear in the form of requiring additional services or additional benefits to employees, without a corresponding funding source. Also, negative impacts occur when legislation and regulatory requirements are changed that reduce the City's revenue sources with no provision for replacement funding.



Financial Health & Strategy

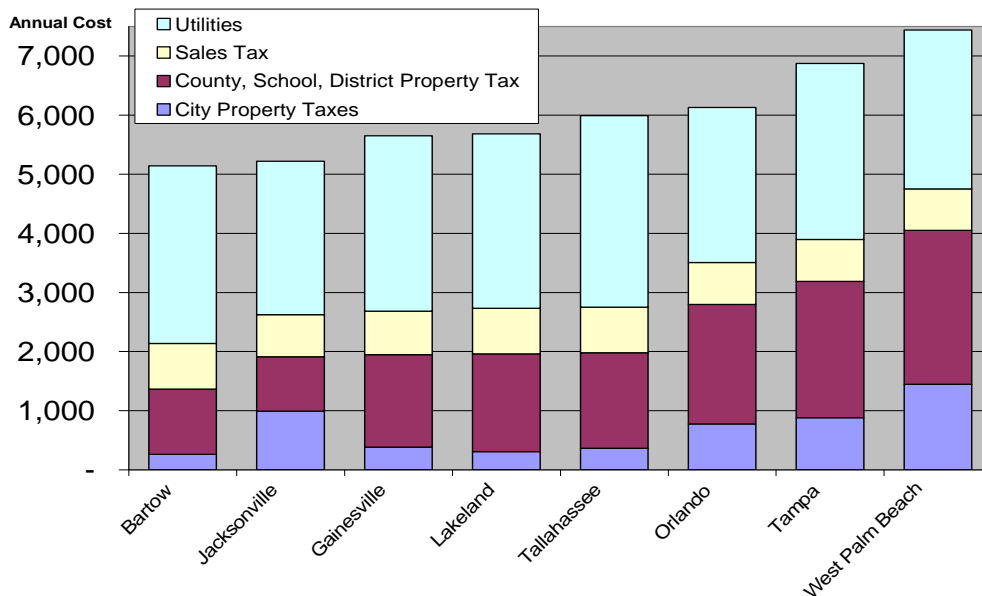
The City of Lakeland provides a wide variety of services to the citizens of Lakeland. In many cases, the nature of these services accommodates recovery of the operating and capital costs associated with those services in the form of a user charge levied against the users based on actual consumption. Examples of these are electric, water, wastewater and solid waste management services, stormwater management, a parking system and a public golf course. These are referred to as “enterprise” services. Other services, such as provision of public safety, transportation systems and leisure activities do not lend themselves to recovery of the underlying costs directly from the users of those services. Accordingly, the day to day operating costs associated with these services are generally financed from generic revenue sources such as property and sales taxes. These are referred to as “general governmental” services.

The City has a long-held strategy of establishing user fees for enterprise services that will attempt to recover the underlying costs directly from users whenever practical to do so. To the extent these services can be performed by the City at costs that are competitive with rates and charges for the same services offered by other local governments in the state or by the private sector, the City has adopted the practice of marking up the prices levied for those services to accommodate a payment in lieu of taxes or a dividend from those enterprise operations to the General Fund. These “transfers” help to finance a portion of the operating costs of those general governmental services that are financed from property and sales taxes. The percentage of the gross revenues earned by these utility operations that is transferred to the General Fund for FY 2008 is budgeted as follows:

Electric	6.3%
Water	15.9%
Wastewater	8.4%
Solid Waste	9.5%

In the aggregate, this represents approximately 34 percent of the total General Fund budget for FY 2008. This represents a decrease from an aggregate 41 percent for the 1998 fiscal year and 46 percent in fiscal year 1988.

As with any enterprise, a major concern is cost control. The City of Lakeland is committed to providing quality services at a reasonable cost. One of the best measures of whether or not that goal is being attained is a comparison of fees charged by Lakeland, in the form of utility rates AND tax rates, compared to other municipalities. The following represents a comparison of the total amount paid in FY 2007 by a typical residential homeowner to their local governments, based on a typical “basket of services” offered by those municipalities.



Financial Health & Strategy

In each case, the category of “Utilities” represents the cost of electric, water, wastewater and solid waste service, based on consumption volumes typical for the average residential customer of Lakeland. In cases where the electric utility in a compared municipality is NOT owned by the local government, the rates charged by the private company that serves that municipality are used.

In the aggregate, Lakeland compares favorably to the other cities in this survey. At a property tax millage rate of 3.545 mills (based on the FY 2007 property tax levy) and an average residential taxable value of approximately \$91,000, Lakeland’s property tax burden is amongst the lowest in the state of Florida. On the other hand, the price of electricity provided by Lakeland’s municipal electric utility is generally higher than many other utilities in Florida, given Lakeland’s relatively high reliance on natural gas as a fuel source used to generate electric power. For the municipalities in this sample, the combined annual cost of utility services in Lakeland is 3 % higher than the average for the group, while the combined annual tax burden (including utility and sales taxes) is 13% less than the average for the group.

The capital cost of providing general governmental services are generally financed from a combination of impact fees, grants, gasoline taxes, and the proceeds from the lease of a City-owned hospital to a private, not-for-profit corporation. The latter revenue source has grown an average of 8% per annum of the past 15 years – approximately double the growth rate of the other revenue sources. It represents approximately 50 percent of the total funds available to finance the capital cost of general governmental services.

Starting in FY 2000, the City began transferring a portion of the lease revenues to the General Fund to help finance the ongoing operating costs associated with construction of new fire stations and funding for police officers under expiring Federal Grants. The ten year capital improvement program for fiscal years 2007 thru 2016 shows that 39% of that revenue source will be diverted to financing operating costs.

During a strategic planning session held by the Lakeland City Commission in January 2007, a total of over \$100 million in unfunded capital projects of a general governmental nature were identified. It was concluded that a restructuring of the funding strategy to eliminate the payment of operating costs from the proceeds of the lease would provide sufficient funds to finance the deficit in capital projects. Various strategies were discussed, which involved replacing the lease proceeds used to finance operating costs with increases in more traditional revenue sources dedicated to that purpose, including property tax and utility dividends.

Subsequent to that planning session, the Legislature for the State of Florida adopted property tax reform as a major initiative. In conjunction with that, legislation was passed at the state level which compelled local governments to reduce property tax rates as “phase one” in the tax reform process. A referendum will be placed before Florida voters in January of 2008 that, if passed, would further reduce property tax revenues available to local governments such as Lakeland.

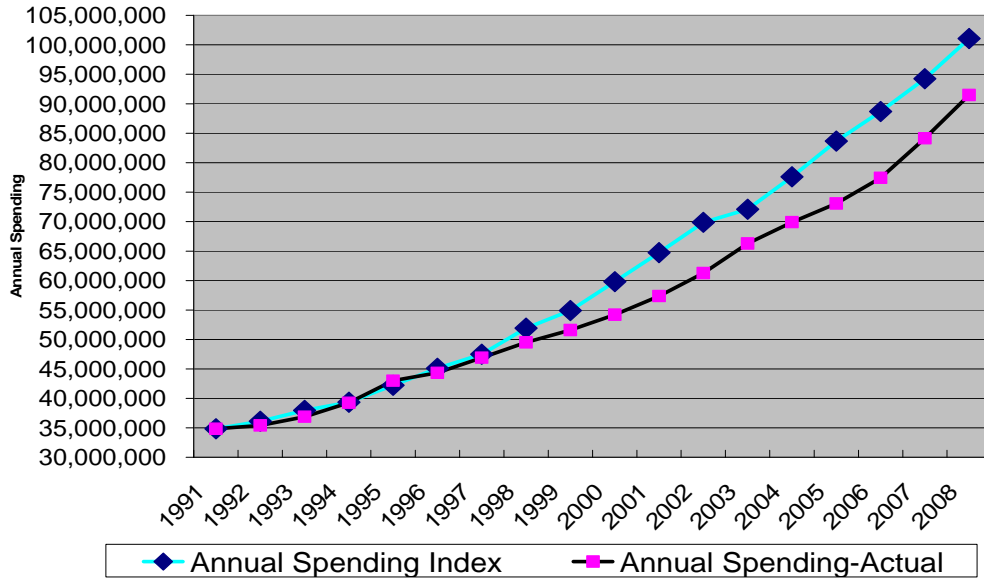
As a result of this legislation, there was very little opportunity to restructure the cross-subsidy of operating versus capital costs associated with general governmental services. The long-range capital budget adopted for the 2008 thru 2017 timeframe showed a slight decrease in the percent of the annual lease revenues diverted to financing operating costs from 39% to 36%, however there still remains a significant shortage in funding for capital improvements needed over the remaining 10 years.

The financing strategies to be adopted by Lakeland (as well as for all other local governments in Florida) will be impacted significantly by the continuing impact of property tax reform. One of the proposals mandated by the tax reform legislation imposed upon local governments in Florida is an annual cap on the increase in property tax revenues equal to the value of new construction during the year (the rolled-back rate) plus a percentage factor equal to the change in state-wide per-capita personal income.

Financial Health & Strategy

The following chart demonstrates growth in general governmental operating expenses in the City of Lakeland (total spending within the General Fund) since 1991, compared to an "index" based on historical increases in property values from new construction and the percentage growth in state-wide per capita income:

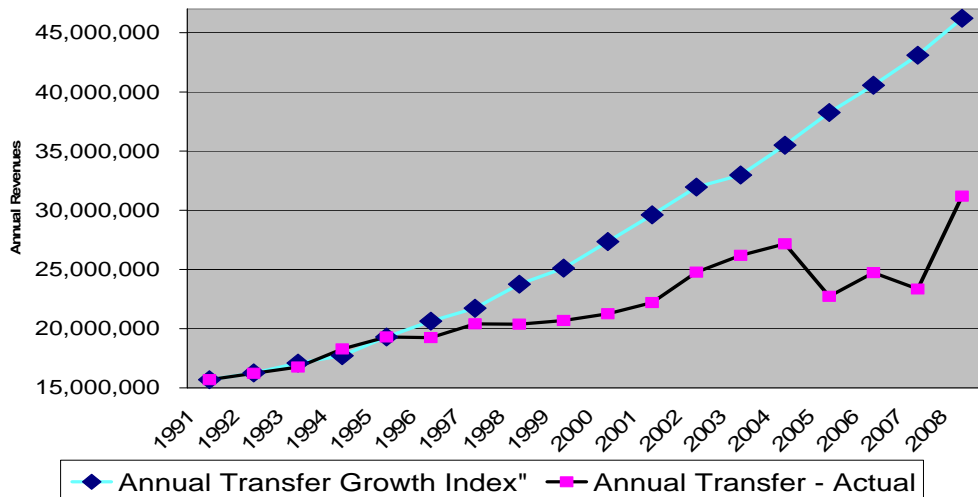
General Fund Expenditures - Compared to increase new construction/growth in per capita income



This chart demonstrates that overall, the growth in the rate of spending within Lakeland's General Fund has generally tracked below the index for the past ten years. This suggests that Lakeland has done a reasonable job in managing increases in spending rates, assuming the index adopted by the state legislature is a realistic benchmark of "acceptable" rates of spending growth.

However, the primary revenue sources available to Lakeland to finance this growth in spending have (generally) not kept pace with this index:

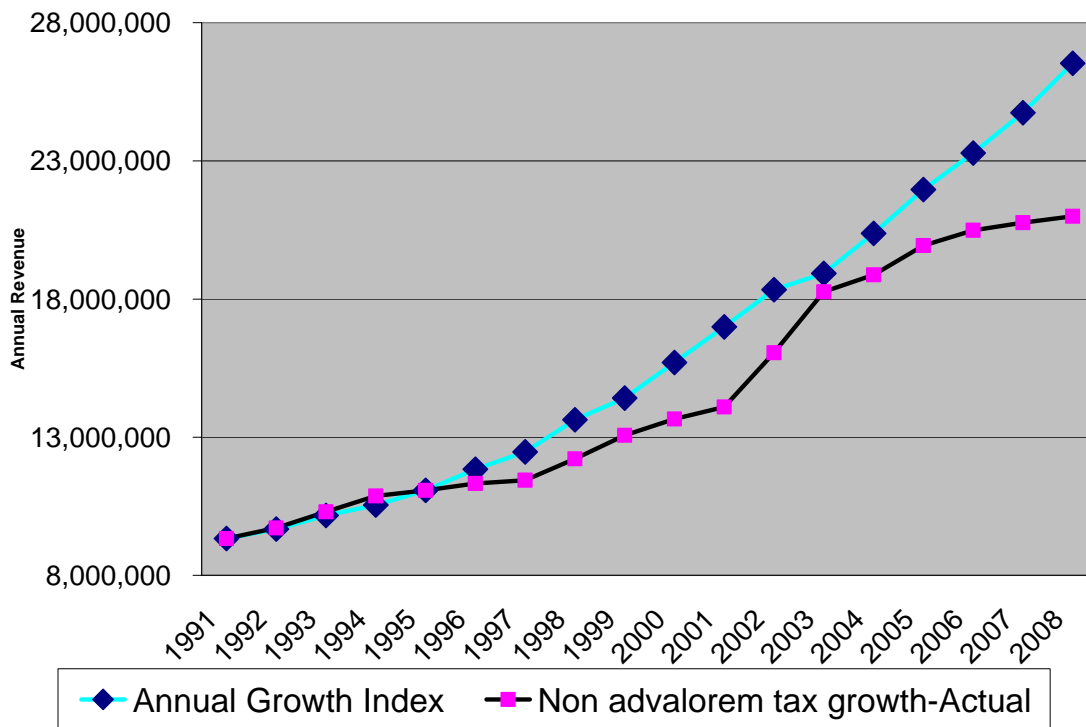
Combined Utility Transfers - Compared to increase new construction/growth in per capita income



Financial Health & Strategy

This source of revenue has not kept pace with the growth index. The temporary decreases in fiscal years 2005 thru 2007 were the result of decreases in the annual transfer from the City-owned electric utility system to the General Fund, in response to significant reductions in net revenues of the electric system available to accommodate those transfers during that period of time. Overall, the inability of these utility-based enterprise operations to generate profits necessary to keep pace with spending growth is due primarily to the need to keep the utility rates assessed within those operations reasonable in relation to the rates and charges levied for the same services within comparable city's in the state.

Non-ad valorem taxes - Compared to increase new construction/growth in per capita income

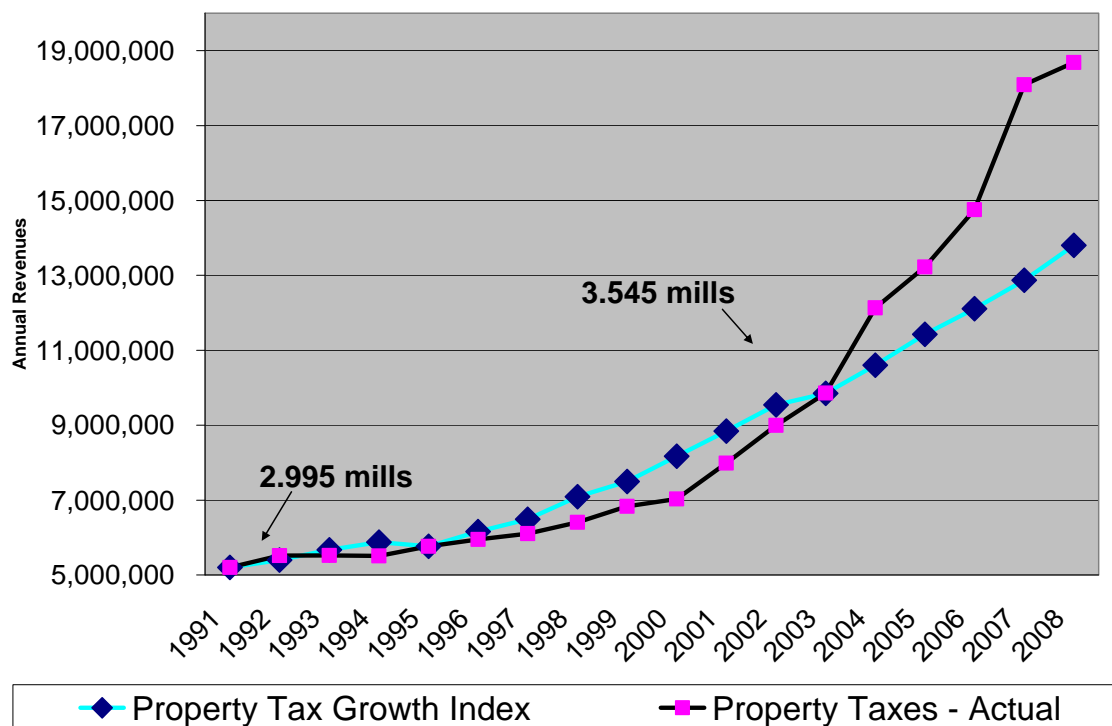


These revenues, which consist of taxes on electric and water utilities, taxes on communications services, and a portion of a one-half sales tax levied by Polk County, have not kept pace with the growth in the index – primarily since fiscal 2003. The period from 2001 thru 2003 was marked by significant increases in tax revenues from telecommunication services sold within Lakeland, mostly the result of changes in the taxing methodology adopted state-wide during that period of time. Since that time, sales of those services have been relatively flat.

Revenues from half cent sales taxes increased an average of 7 percent annually during the five year period 2002 thru 2006, however revenues have decreased state-wide since then, due to some extent by the much slower pace of new building construction.

Financial Health & Strategy

Property Taxes - Compared to increase new construction/growth in per capita income



Property taxes are the only significant source of revenue available to finance the cost of general governmental services that has kept pace with the growth index adopted by the State of Florida. In recent years, this revenue source has exceeded the index – primarily because of a .55 mill increase in the tax rate adopted in fiscal year 2004 to finance significant increases in the cost of public safety that occurred during that year. Fiscal years 2006 and 2007 saw further increases in that revenue source, resulting from double-digit percentage growth in property appreciation during those years. Lakeland experience property appreciation of approximately 9.5 percent for fiscal year 2008, however the impact of mandated roll-back of tax rates negated that increase.

Strategically, the City of Lakeland is at a cross-road with respect to determining the best approach toward financing the operating costs of local government. Lakeland is relatively unique in that it owns profitable utility operations (electric, water, wastewater, solid waste) which have been able to provide dividend transfers to the General Fund. These transfers have historically enabled Lakeland to maintain low property tax rates. As demonstrated, this source of revenue is not growing at the pace necessary to sustain the level of subsidy necessary to maintain the lower than average ad valorem tax rate – absent increasing reliance on other revenue sources. In recent years, the relative slow growth rate from this source of revenue has been offset by slower than indexed rates of spending growth, and higher than index rates of property tax growth. Given the impacts of property tax reform and the continued shortfall in financing available to pay for capital improvements, Lakeland will need to consider some fundamental changes in its approach.

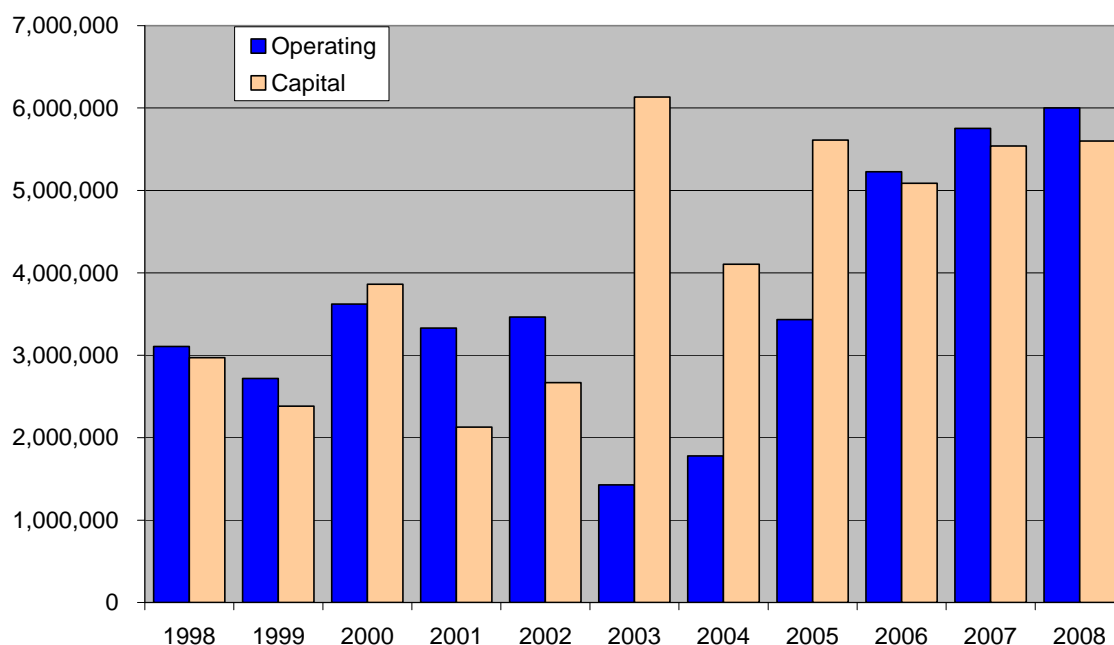
Lakeland has historically balanced its annual budget without reliance on formal, written policies that determine the dollar value of transfers to the General Fund from utility operations. Instead, Lakeland has simply performed an annual “balancing” of the need for revenues within the General Fund versus the financial ability of these operations to make larger annual transfers while still maintaining competitive rates. Lakeland will most likely need to address the adoption of more formal policies regarding the dollar value of these transfers – not necessarily for the purpose of increasing the level of reliance on those sources of funds – but to better identify the extent to which changes in property tax rates will be needed to financed the continued cost of government at it’s current levels of service.

Financial Health & Strategy

Cash Reserves

The following chart shows the historical dollar value of cash reserves held by the City at the end of each fiscal year since 1998. This represents the amount of working capital on hand within the General Fund (which finances general governmental operating costs) and the combined working capital balances in the Public Improvement, Transportation, Stormwater and Community Redevelopment Funds (which finance general governmental capital costs) at the start of each fiscal year.

Cash Reserves - General Governmental Activities

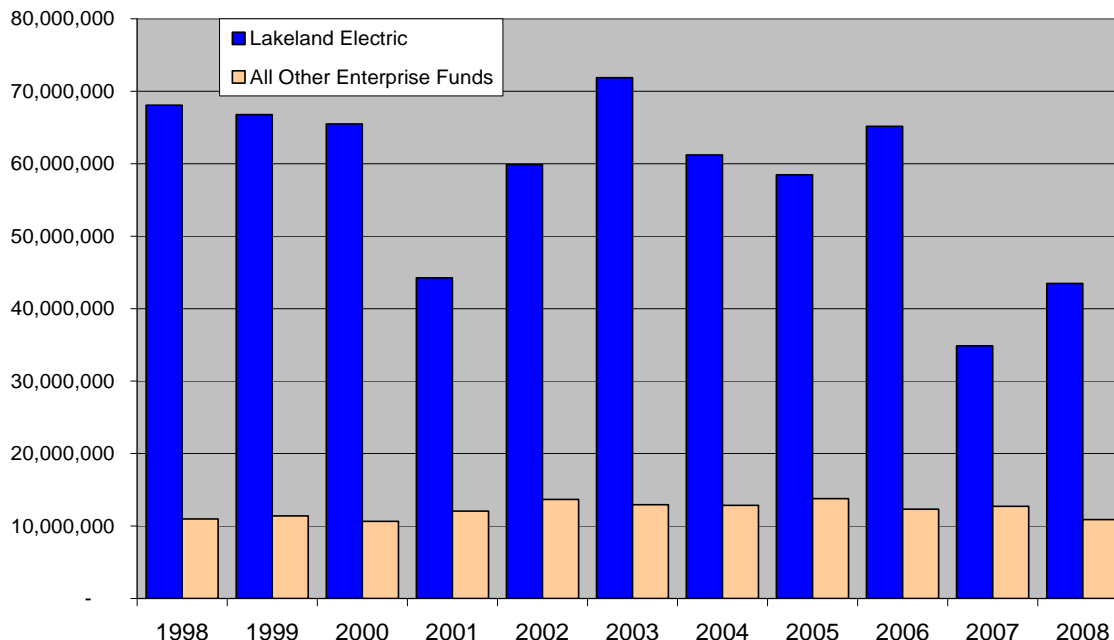


The total value of working capital at the start of FY 2008 represents approximately 9 percent of the FY 2008 budgeted expenditures for these general governmental activities. By comparison the total value of working capital on hand at the start of FY 1998 represented approximately 10 percent of budgeted expenditures for general governmental activities

Financial Health & Strategy

The following chart shows similar information for the enterprise funds maintained by the City of Lakeland:

Cash Reserves - Enterprise Funds



The dollar values shown above for Lakeland Electric represent unrestricted cash on hand. This number excludes approximately \$25 million set aside in an unrestricted account to pay down debt obligations starting in FY 2009 and also excludes approximately \$10 million in unrestricted cash set aside to fund capital projects that have already been appropriated and which will be expended over the course of the next two years. The dollar amount shown for the other enterprise funds represents total net working capital of those operations, combined.

The dollar value of cash reserves within Lakeland Electric has fallen significantly since 2006 as a result of the impact of natural gas prices on a wholesale power sales contract between Lakeland Electric and the Florida Municipal Power Agency. Under the terms of that contract, Lakeland Electric is obligated to sell up to 100 MWh of electricity to FMPA at a contract price that was fixed back in 2000. As a result of the recent escalation of prices in natural gas, the contract price is not sufficient to cover the underlying costs generating the power. As a result, the utility has experienced significant losses as a result of that contract. Over the seven year term of the contract (which ends December 15, 2007), the utility is expected to lose in excess of \$92 million on this transaction. In response to that, the City reduced the annual dividend paid from Lakeland Electric to the General Fund starting in FY 2005 by an aggregate amount of approximately \$14 million. Lakeland Electric also deferred certain capital projects in the last year. The remainder of the losses incurred in conjunction with the contract had the effect of reducing cash reserves, as indicated above. This contract expires during the first quarter of FY 2008, and accordingly its impact on working capital is minimal going forward.

Total cash-based liquidity of \$43.5 million within Lakeland Electric is equivalent of 52 days of operating expenses. Inclusion of other unrestricted cash in this calculation increases that number to 94 days of total unrestricted liquidity.

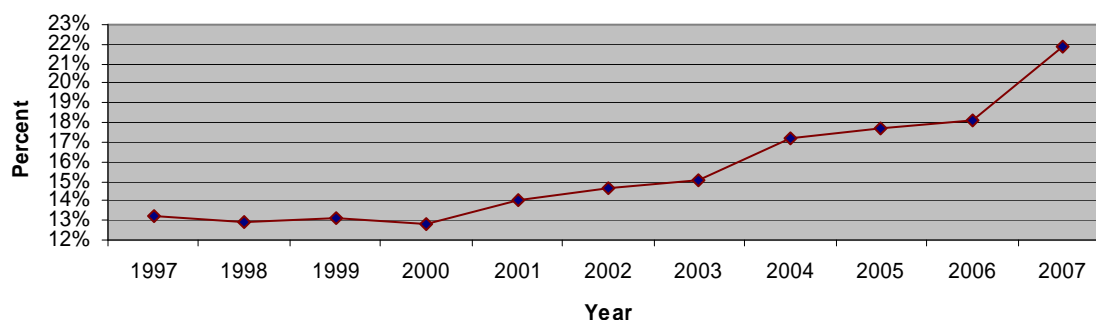
Total working capital for all other enterprise funds combined represents approximately 10.5% of the FY 2008 budget for those funds.

Revenue Sources

The City of Lakeland relies on a variety of revenue sources in order to finance the cost of services provided to its citizens. Some of these revenues can be *directly* associated with the cost of specific services. Examples include the user fees charged for electricity, water, wastewater and solid waste collection services, use of parking facilities, and certain fees for recreational facilities including the city-owned golf course. The amount charged increases or decreases based on the volume of services provided (i.e. electric revenues are based on an amount per kWh). For these services, the intent is that 100 percent of the cost of providing that service is recovered thru the imposition of this user fee.

Other governmental revenues sources can not be related directly to underlying services, primarily because the services do not lend themselves to cost recovery using a direct user charge. Examples are police and fire services, maintenance of roadways and parks, libraries, etc. These public services are financed through a variety of “generic” revenue sources including property, sales and utilities taxes, and state and local grants. The City of Lakeland also relies on the profits earned by the Electric, Water, Wastewater and Solid Waste utility operations as a source of revenue to finance these same general governmental functions.

Property Tax Revenues



The State of Florida mandates that City’s include no more than 95 percent of the calculated tax proceeds in preparing the annual budget. This reduction is intended to compensate for discounts offered to taxpayers, and a small percentage of tax bills that go unpaid each year. Because of the relatively large annual percent increases in taxable values, the significance of this revenue source as a percentage of the General Fund budget has been growing. The City’s property tax rate remained level at 2.995 mills from 1991 thru 2003. In FY2004, the millage was increased to the rate of 3.545 mills and remained the same until the 2008 Tax Reform where the rate was rolled back to 3.2942. The tax rate is adopted by the City Commission in conjunction with preparation of the annual budget. The property appraiser’s office certifies the taxable values of property in the City by July 1 of each year.

Public Service Taxes, Franchise Fees and Communications Services Tax

The City levies:

- A 10 percent Public Services Tax on the sale of electricity, water and natural gas (metered or bottled) within the city limits.
- A tax on fossil fuel oil in the amount of 4 cents per gallon.
- A Communications Services Tax on telephone service, (including local, long distance and mobile services), and on cable TV service. The City’s share of this tax is 6.43 percent. This rate was subsequently increased to 7.03 percent by the state of Florida representing the additional discretionary surtax of .60 percent that is remitted to the county school board.
- The City has extended a franchise agreement to Peoples Gas System (a division of Tampa Electric Company) to distribute metered gas within the City limits. The franchise agreement calls for a payment to the City equal to 6 percent of monthly gross revenues.

Revenue Sources

Half Cent Sales Tax Revenues

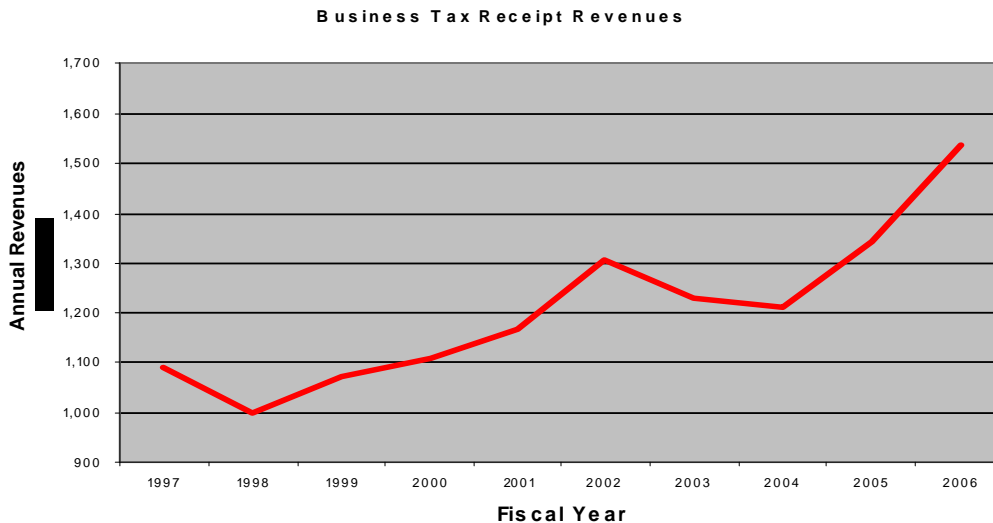
County and Municipal governments in Florida are entitled to a distribution equal to 9.653 percent of total sales tax proceeds attributable to sales within each county. Those revenues are shared between the County government and each of the Municipal governments within the County. Effective July 1, 2004, this revenue source decreased by approximately 8.7 percent, based on the State of Florida's change in funding procedures related to the state-run court system. This decrease was intended to be offset by increases in the amount of State Revenue Sharing funds disbursed to cities and counties.

State Revenue Sharing Revenues

The State of Florida distributes revenues to each county and municipal government based on a Revenue Sharing act adopted in 1972. At one time, this distribution was based on the dollar value of cigarette taxes collected within each county, however the methodology was changed in FY 2000 to remove the cigarette taxes as the basis for the distribution, and now the basis for this distribution consists of a stated percentage of the general state-wide sales, use, and other taxes. This calculation is performed by the State Department of Revenue, based on population data provided by each county. This revenue source has been relatively flat over the past ten years. The portion of the general state-wide sales and use tax dedicated to the Revenue Sharing fund increased from 1.0715 percent to 1.3409 percent in July 2004.

Business Tax (Formerly Occupational Licenses) Revenues

The City issues receipts (licenses) to all commercial business enterprises located within the City limits. A fee is assessed to each user, based on a predefined fee schedule that considers the type of business conducted and the volume of business conducted. By state law, the rates charged per the adopted fee schedule may be increased every other year, in an amount that does not exceed 5 percent per receipt.



The last change to the rate structure was a 5% increase adopted by the City in 2005.

Building Permit Revenues

Permit fees are issued for construction/renovation occurring within the City limits. Separate permit fees are levied for landscaping, building, plumbing, electrical, and other mechanical improvements. This fee is intended to cover the cost of inspections performed by building inspectors employed by the City. This fee structure was increased by 6 percent for fiscal 2006.

Revenue Sources

Federal, State and Local Grant Revenues

The City applies for grants from various federal, state and local agencies to help finance specific operating costs. In recent history, the majority of these grants have been to hire additional police officers. These grant programs typically reimburse the City for a stated percentage of specific program costs. This revenue source has been declining rapidly as the federal government scales back it's funding for law enforcement. This chart represents a comparative history of the revenues from these grants, along with the underlying program expenses over the last ten years.

Fiscal Year	# of Funded Postions	Total Cost	Grant Revenues	% Funded
1997	51	2,010,000	1,234,000	61%
1998	69	2,927,000	1,744,000	60%
1999	74	3,271,000	1,974,000	60%
2000	77	3,278,000	2,202,000	67%
2001	54	2,523,000	1,519,000	60%
2002	37	1,935,000	1,379,000	71%
2003	31	1,344,000	934,000	69%
2004	23	1,233,000	799,000	65%
2005	23	1,133,772	587,042	52%
2006	13	1,009,853	768,342	76%

Charges for Service Revenues

Charges for Services represent user fees assessed directly against the users of municipal services. The most significant of these are parks and recreation fees, which generated approximately \$1.5 million last year against total operating expenses of \$11.2 million (excluding capital). These revenues consist of facility rental fees, recreational class/program fees, tennis and swimming fees, and parking and expense recovery fees related to the Detroit Tigers major and minor league activities at Marchant Stadium. This category of revenues also includes a variety of other fees, as follows:

- Lot Clearing and Cleaning
- Building Demolition
- Sale of fire inspection permits
- False alarm fees
- Reimbursement for overtime services provided by the Lakeland Police Department, established in conjunction with the collective bargaining agreement with the police union
- Wrecker Service permitting fees
- Public Records Copying
- Zoning fees
- Cemetery fees

Did you know...

The Detroit Tigers began their pre-season training in Lakeland in 1934.

Revenue Sources

Fines and Forfeits Revenues

This category consists primarily of the proceeds from fines issued for motor vehicle traffic infractions. Also included in this category:

- Revenues that pass-thru the City and are paid to police officers who have achieved certain levels of higher education as supplemental compensation.
- Proceeds from confiscated cash and property seized by law enforcement agencies.
- Collection of fines levied by the City's Code Enforcement Board.

Miscellaneous Revenues

The majority of the revenue included in this category represents investment income earned on working capital held by the General Fund and the various restricted sub-funds maintained within the General Fund:

- Hollis Gardens Maintenance Trust Fund
- Law Enforcement Trust Fund (confiscated property)
- Recreation Facilities
- Cultural Activities Reserve

This category also includes:

- Approximately \$100,000 in proceeds from leases of various city-owned buildings to private entities. The majority of these leases include some provisions for CPI increases
- Proceeds from the sale of cemetery lots
- Contributions and donations from private entities
- Cost reimbursements collected from other city funds/departments for the use of radio equipment maintained by the Radio shop

Gasoline Tax (1 Cent Municipal Fuel Tax) Revenues

The amount of this tax is equal to 1 cent per gallon of gasoline sold within the municipal limits, less an administrative fee (retained by the state) not exceeding 2% of the gross proceeds of the tax.

The proceeds of this tax shall be used for the purchase of transportation facilities, roads and street rights-of-way; construction, reconstruction, and maintenance of roads, streets, bicycle paths, and pedestrian pathways; adjustment of city-owned utilities as required by road and street construction; and construction, reconstruction, transportation-related public safety activities, maintenance, and operation of transportation facilities. Municipalities are authorized to expend the funds received under this section in conjunction with other cities, counties, the state or federal government in joint projects.

Gasoline Tax (9th Cent Fuel Tax) Revenues

This is an optional tax, levied by the county, and shared with municipalities within the county based on an interlocal agreement. Per that interlocal agreement the distribution formula is weighted 50% towards the ratio of each municipality's population to total county population, and 50% towards the ratio of each municipality's lane miles to total county lane miles. For FY 2005, this calculated ration equaled 14.302% of the total county taxes (an increase from the FY 2004 percentage allocation of 14.006% and a decrease from the FY 2003 percentage allocation of 14.802%).

Revenue Sources

6 Cents Local Option Fuel Tax Revenues

This is an optional tax, levied by the county, and shared with municipalities within the county based on an interlocal agreement. The distribution formula is identical to that used for the 9th cent fuel tax. The eligible uses of these funds are also identical to those of the 9th cent fuel tax.

5 Cents Additional Local Option Fuel Tax Revenues

This is an optional tax, levied by the county, and shared with municipalities within the county based on an interlocal agreement. The distribution formula is identical to that used for the 9th cent fuel tax. The proceeds of this tax shall be used for “transportation expenditures” needed to meet the requirements of the capital improvements element of an adopted comprehensive plan or for expenditures needed to meet immediate local transportation problems and for other transportation-related expenditures that are critical for building comprehensive roadway networks by local governments. Expenditures for the construction of new roads, the reconstruction or resurfacing of existing paved roads, or the paving of existing graded roads shall be deemed to increase capacity and such projects shall be included in the capital improvements element of an adopted comprehensive plan. Expenditures of this revenue source shall not include routine maintenance of roads.



Debt Management Overview

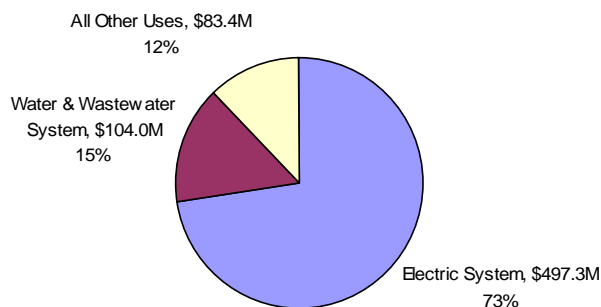
The City of Lakeland (the “City”) incurs long term debt – either in the form of bonds issued directly in the name of the City or other loans obtained from pooled debt programs managed by third parties – for the purpose of funding capital improvements to City facilities and infrastructure. Although the City has established specific policies related to the issuance and structuring of debt (see page B-18), the overall level of outstanding debt is not constrained by a specific legal limit. However, because most of the City’s debt is revenue based, rating agency and market requirements effectively constrain bond issuance. The City also funds a significant amount of capital improvements through “pay-as-you-go” cash financing. Pay-as-you-go financing comes from cash outlays of various revenues including state and federal grants, impact fees, certain lease payments, and other operating revenues. As of September 30, 2006, the City had outstanding long-term debt of \$684.8 million.

Electric system improvements include: construction and conversion of generating assets; environmental projects; renewal, replacement and expansion of the transmission and distribution network; and numerous other projects. Water and wastewater improvements include construction and improvements to water and wastewater treatment systems and replacement and expansion of distribution and collection networks. All other projects encompass a variety of governmental and development projects, including improvements to and/or expansion of the Lakeland Linder Regional Airport, the Lakeland Center, the Cleveland Heights Golf Course, public safety facilities and parks and recreation facilities.

As shown, the bulk of debt incurred by the City is for the provision of basic utilities, i.e., electricity, water and wastewater. The City operates a municipally owned electric system, including power generation, as well as transmission and distribution. In many communities, these services are provided through investor-owned (private) utility companies. In those communities, the debt (or equity) used to finance electric utilities would appear in the financial statements of the private corporations, not the city or town. Because the City of Lakeland owns and operates the electric utility, it incurs a much larger amount of debt than most other cities of comparable size.

Purpose of Debt

**City of Lakeland
Outstanding Debt by Use
FY2006**

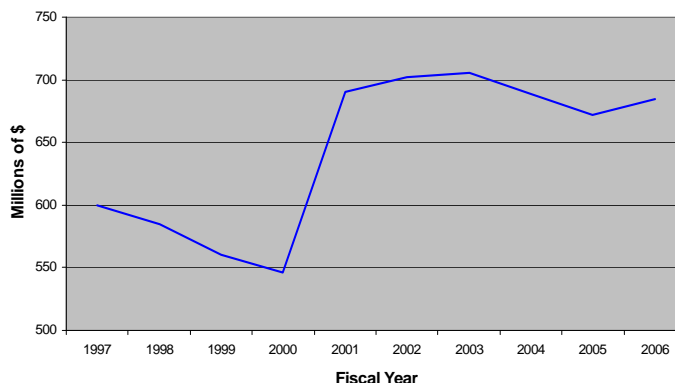


Debt issued by the City was incurred to fund capital improvements to three major categories of assets: the electric system, the water and wastewater system, and all other projects. Nearly three-quarters (73%) of the City’s outstanding debt funded electric system improvements. Water and wastewater projects make up another 15%, while all other uses account for the remaining 12% of outstanding debt.

Debt Trends

Overall Debt: Over the last decade the City’s outstanding debt has increased by about 14% (\$85 million). The increase is largely the result of the issuance of a significant amount of debt (\$120 million) in FY 2001, which was used to fund the conversion of one of the Electric Department’s major generating assets. Except for this major outlay, the

**City of Lakeland
Outstanding Debt**



Debt Management Overview

City's overall debt would have remained relatively level or declined.

During FY 2007, total outstanding debt will remain relatively constant. Scheduled repayments and new debt will roughly offset one another. During FY 2008, overall debt is expected to increase by at least \$20 million, while borrowing for electric system environmental remediation projects is expected to exceed projected debt repayments.

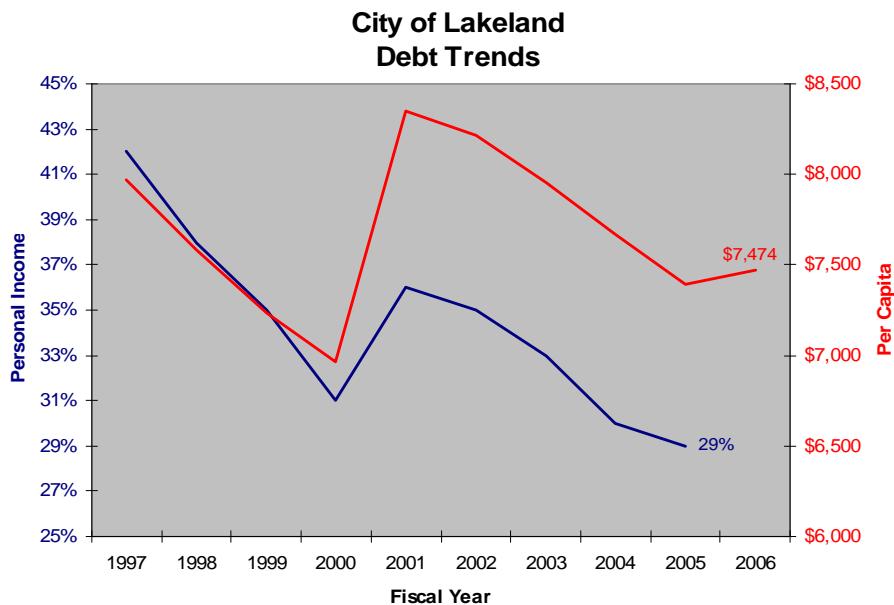
Other Measures of Debt: Over the last decade, the Lakeland area has experienced substantial development and population growth. Although the dollar volume of debt outstanding is important, other normative measures, such as debt per capita (per person) and debt as a percentage of personal income, provide a more accurate gauge of an area's debt burden. Debt per capita measures debt against the size and growth of the population served, by projects being financed. While debt as a percentage of personal income measures outstanding debt against an area's ability to pay for projects. As shown below, Lakeland's debt per capita has remained relatively flat over the last ten years, reaching \$7,474 per person in 2006. Debt as a percentage of the area's annual personal income has declined, dropping to 29% as of 2005 (the last year for which data is available). As noted, most of the City's debt has been incurred to finance electric system improvements. In other communities, these type of projects are financed

through investor-owned utility companies. As such, any debt incurred to finance projects would not appear on that city's books. If Lakeland's electric system related debt is excluded from the calculations, debt per capita would drop to \$2,046 and debt as a percentage of personal income would be under 8%.

Types of Debt

The City's long-term debt consists primarily of bonds (\$652.1 million – 95%) along with certain loans (\$32.7 million – 5%). Bonds are formal borrowings issued through Wall Street to investors under trust indentures that specify the security for and source of repayment for the debt. The City has several different types of bond debt, which are detailed below. The City's loans consist almost exclusively of monies borrowed through various State programs.

Bonds: The City of Lakeland has four distinct revenue bond programs which are summarized in the table on page C-23. Revenue debt consists of a promise to repay bonds from a specified revenue stream. In contrast, general obligation debt entails a promise of the "full faith and credit" of a governmental entity and a requirement to repay any such debt from all available revenues, including the use of the entity's taxing power. In Florida, local general obligation debt requires voter



Debt Management Overview

City of Lakeland Revenue Bond Programs 9/30/2006				
Type	Source of Repayment	Amount Outstanding	Outstanding Through	Interest Rate
Energy System	Rates, fees, charges and other operating revenues of the electric system – primarily payments from electricity customers	\$523.3 M	2037	3.05% to 6.05%*
Water and Wastewater System	Rates, fees, charges (including impact fees) and other operating revenues of the electric system – primarily payments from water and wastewater users	65.4 M	2033	3.50% to 5.00%
Dedicated Tax	Specified taxes, including: (a) taxes imposed by the City on utility services (electricity, water, gas & local communications); and (b) certain tourism taxes collected by Polk County on behalf of the City	31.3 M	2022	3.50% to 4.50%
Capital Improvement	Non-ad valorem revenues from any source legally available (not including ad valorem taxes on real and personal property), subject to availability & appropriation	32.0 M	2017	3.85% to 5.00%
* includes \$139.5 million of variable rate debt				

approval through a referendum. The City has not had any general obligation debt outstanding since 1971. As shown, the overwhelming portion of the City's bonds (\$588.7 million - 90%) are utility system revenue bonds. They are user based debt: the bonds are issued for utility system improvements and repaid from the fees charged to the users of those utilities.

Utility revenue bonds effect the operations of the relevant systems in two ways. They fund necessary improvements to the systems in questions allowing them to continue operating and producing services. In addition, the debt service requirements of the bonds are a component of cost that helps determine the level of fees charged.

Loans: As noted, the City's debt includes loans, primarily from the State of Florida under two programs. These include \$19.8 million in loans through the Sunshine State Government Financing Commission for various City projects and \$12.4 million through the State Revolving Loan Program for wastewater projects. The security for the Sunshine State loans consists of a pledge of non ad valorem revenues similar to the City's Capital Improvement Bonds. The State Revolving Loans are repaid from excess revenues of the wastewater system, and are subsidized by the State at below market rates. The City also has a small amount (\$0.6 million) of other miscellaneous loans.

Debt Management Overview

Recent Debt Management Activities

During FY 2006, the City issued \$44.9 million of Energy System Revenue Bonds to fund capital improvements to the electric system. These included significant environmental remediation projects related to one of the City's electric generating plants. In addition, the City entered into a hedging agreement to fix the interest rate on an additional \$45 million of future Energy System Bonds Revenue. These bonds are expected to be issued during FY2008.

In January 2007, the City entered into a Bond Warrant Agreement granting an irrevocable option to an underwriter which, if exercised, would cause the City to refund \$158.6 million of its outstanding debt at a future date. This refunding would not increase the City's related debt service payments.

In exchange for granting this option, the City received an upfront payment of \$7.68 million.

During FY 2006, the City increased its borrowings under the State's Revolving Loan Program by \$4.4 million. Additional borrowing under this subsidized loan program is expected to occur during FY 2007 and FY 2008.

Debt Service Requirements

The debt service requirements for all of the City's outstanding long-term debt - including both bonds and loans is shown on the table below.

A more detailed explanation of the City's debt and debt management activities can be found in the City's Comprehensive Annual Financial Report and its Annual Report to Bondholders, both of which are available on the City's website.

City of Lakeland Outstanding Debt Summary			
YEAR	PRINCIPAL	INTEREST	TOTAL
2007	8,095,114	26,432,739	34,527,853
2008	25,205,014	30,256,709	55,461,723
2009	29,034,751	30,904,354	59,939,105
2010	34,586,259	31,515,481	66,101,740
2011	30,935,148	30,448,867	61,384,015
2012 - 2016	158,748,293	126,573,664	285,321,957
2017 - 2021	94,387,106	78,143,702	172,530,808
2022 - 2026	70,288,920	62,223,534	132,512,454
2027 - 2031	83,118,567	44,318,589	127,437,156
2032 - 2036	109,930,000	21,963,102	131,893,102
2037 - 2038	40,440,000	1,598,961	42,038,961
TOTAL	\$684,769,172	\$484,379,702	1,169,148,874

Did you know...

In February 1884 the Lakeland Improvement Company Inc. was created with a capitalization of \$50,000 so that streets and avenues could be laid out for the town's people.