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The Long-Range Planning section begins with an introduction of our Core Values and Outcomes. An analysis of the current financial environment is provided, in addition to a Financial Condition Overview of the City, our Revenue Sources, Financial Strategy and Debt Management Overview.

City of Lakeland, Florida

Annual Budget

Fiscal Year 2020

Annual Budget

Fiscal Year 2020

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Long-Range Planning Overview

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

First, we recap the Strategic Plan of the City for Fiscal Year 2020. The Strategic Plan is developed at the City Commission Retreat and contains the Core Values of the City and Outcomes for each goal (See Introduction Section A for detailed definitions).

The Environmental Scan, which follows the Strategic Plan, is an overview of the economic and developmental forces at work in the community, as well as information regarding changes in the demographic, technological, legislative and service demand areas. During the Environmental Scan, departments also look outside our organization at other cities and private sector competitors to evaluate levels of service and operational strategies. The City believes in utilizing standard best practices to model our systems.

A Debt Management Overview is provided with brief explanations of debt purposes and debt trends. Based on our Strategic Plan, Environmental Scan and Financial Forecasts, we have created a financial strategy for the short-term, that positions us to be in the best position for long-term trends and conditions.

All the tools noted are used in the development of the Financial Health summary. This section attempts to anticipate the impacts of a changing environment as well as plan for future operational and capital expenditures.



Figure C-1: Today, Tomorrow, Future

Environmental Scan – Demographic Trends

Demographic Trends

In 2018, the University of Florida's Bureau of Economic and Business Research (BEBR) estimated the City of Lakeland's population to be 105,586, making Lakeland the 21st most populated city in Florida. This estimate depicts a nominal but steady increase from the 2010 U.S. Census estimate of 97,422. Supporting a healthy job and housing market, Lakeland is continuing to grow at a pace of more than 1% per year. With the consistent pattern of residential construction, Lakeland's population has grown by nearly 35% from the previous decennial census which estimated the City's population to be 78,452 in 2000.

Households and Families

The U.S. Census Bureau American Communities Survey (ACS) for 2017 estimated that there were 40,443 occupied housing units in Lakeland, of which, 56.3% were owner-occupied and 43.7% renter-occupied. There were 8,929 vacant units, with a homeowner vacancy rate of 4.6% and a rental vacancy rate of 9.6%. The average Lakeland owner-occupied household size during this period was 2.39 people while the average family size was 3.15. Also, in 2017, the median age of residents in Lakeland was estimated to be 41.3.

Income

The 2017 ACS estimated Lakeland's median family income at \$53,187 while the per capita income for Lakeland was estimated at \$24,480 (these figures are based upon 2017 inflation-adjusted dollars).

Per Capita Personal Income

Year	Lakeland	Florida
2008	\$32,758	\$39,709
2009	\$31,307	\$37,350
2010	\$32,893	\$38,473
2011	\$34,873	\$40,215
2012	\$33,647	\$41,041
2013	\$34,393	\$41,497
2014	\$32,652	\$42,737
2015	\$33,723	\$44,429
2016	\$34,199	\$45,953
2017	\$34,213	\$47,648

Figure C-2: Per Capita Income

Environmental Scan – Demographic Trends

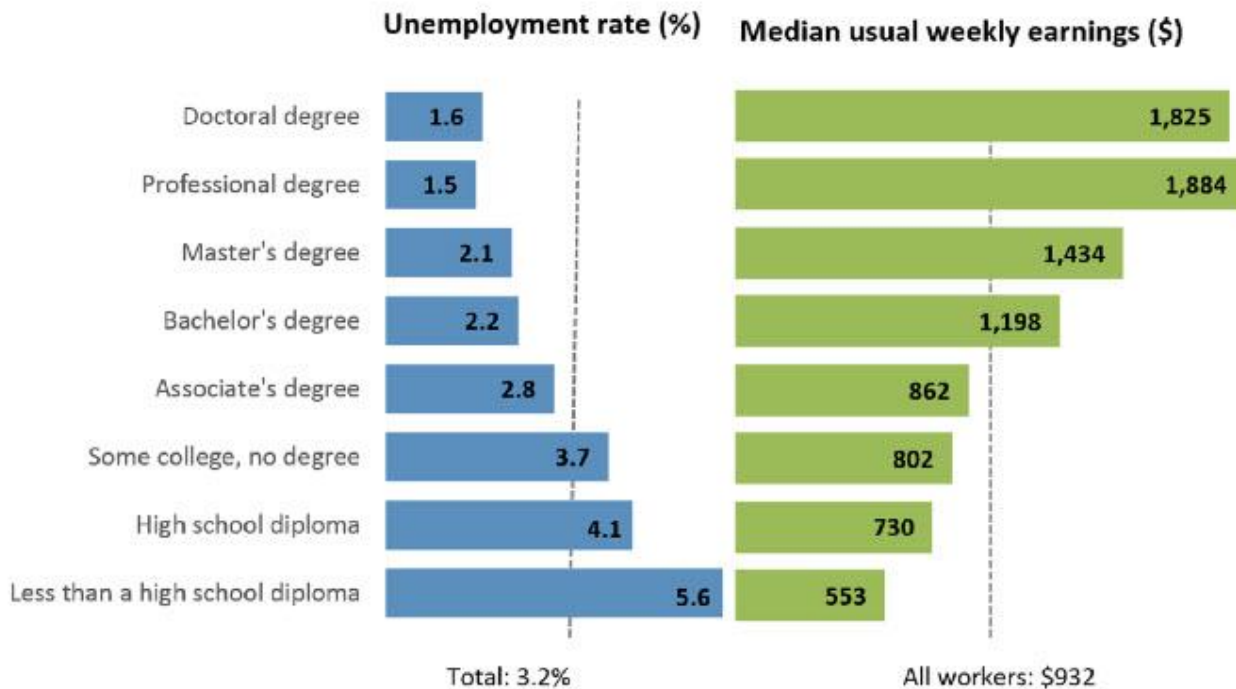
Cultural Factors

As Lakeland’s population continues to grow well beyond the 100,000 mark, the City is also seeing shifts in its diversity. The 2017 ACS data from the U.S. Census shows, 97.6% of Lakeland’s residents reported themselves as being of one race. Within this one race category, 73.7% were white, 20.1% were black or African American, 0.2% were American Indian or Alaska Native, 2.2% were Asian, and 4.3% listed other as a race. As part of the City’s total population, the 2017 ACS estimates there are 15,667 Hispanics or Latinos of any race embedded within the total figure. This number represents 14.5% of the City’s total population, which is a 26.8% increase in Lakeland’s Hispanic population since the 2010 U.S. Census.

Educational Attainment

With several public and private colleges located within the Lakeland Electric Service Area and the accessibility of online learning, Lakeland has seen a marked increase in the educational attainment of its residents. The 2017 ACS shows that 88.4% of Lakeland residents over the age of 25 had graduated from high school. This marked a 9.2% increase from the 79.2% number that was recorded in the 2000 Census. The 2017 survey also reported that 25.8% of Lakeland’s residents over age 25 had a bachelor’s degree or higher.

Unemployment rates and earnings by educational attainment, 2018



Note: Data are for persons age 25 and over. Earnings are for full-time wage and salary workers.
 Source: U.S. Bureau of Labor Statistics, Current Population Survey.

Figure C-3: Unemployment Rate and Earnings

Environmental Scan – Land Development

Land Development Trends

Single-Family Residential

Residential construction in Lakeland continues to gain strength and interest. Lakeland issued 400 single-family permits in 2018, marking last year the busiest for new activity since 2007. This activity is a 10% increase from the prior year and a 447% increase from 2012.

Based on the rise and fall of the single-family residential market in Lakeland over the past decade, it is widely believed that a healthy market in Lakeland could support 150-200 new single-family permits per year. Lakeland's stabilization and recent growth demonstrates strength in the core market and signals a resurging pattern for residential development. Prior to the most recent housing crash, Lakeland averaged approximately 350 single-family permits per year from 2002-2008. Inflated values and easily accessible financing drove up the volume of housing units as prices rose to a seemingly sudden and unmanageable peak. Understanding the combined cyclical effects of a historic recession and stagnant unemployment, economists are now seeing a recovery in Lakeland's residential real estate market that is both consistent and sustainable.

Consistent with new single-family construction, the residential resale market in Lakeland is very busy. Last year was marked as one of the most active real estate resale years over the past decade, with 4,013 residential units sold. Balancing this growth, the total units sold in 2018 marked a 116% increase from the markets most recent lowest point, which was recorded in 2008. This increase in the number of homes sold has also impacted the price of existing homes. In Lakeland, the average purchase price for a home in 2018 was \$202,768, which was a 13.4% increase from the prior year.

In 2008, when the real estate bubble burst and the market crash followed, the Lakeland Association of Realtors (LAR) reported that the local real estate market had peaked with more than 3,500 existing homes for sale within the current inventory. With a statistically steady number of buyers, and a defined number of homes for sale, it was estimated that Lakeland's real estate market had compiled almost 30 months of built up inventory during that period. Conversely, by the close the 2018 calendar year, the residential resale market had accelerated to a level that may be difficult to maintain. With current inventory levels 37% below where they were just three years ago, Lakeland's 957 existing units for sale in December of 2018 represent a market inventory that stands at a supply of just 3.1 months. Demand for existing inventory balanced with new construction have enhanced the local housing market. Steady home sales, balanced with increasing market prices, have solidified a turn towards a more level foundation that typically promotes a healthy and consistent residential market.

With this momentum, most economists agree that the residential real estate market reached its bottom in late 2012 and that moving forward stabilization and growth may look to become the new normal. Key statistics outlining real estate valuations, sales transactions and new construction starts all point to local and regional growth.

Complimenting these trends, mortgage interest rate growth has slowed, unemployment rates are historically low, and banks continue to loosen restrictions related to lending money. All these factors look to be positive in repositioning Lakeland's residential market for continued growth.

Environmental Scan – Land Development

Commercial and Industrial Properties

Lakeland's industrial market is heavily reliant on job growth. As the national and local economies remain sound and industry expands, demand in Lakeland will continue to grow thus helping to sustain a positive absorption rate. After several consistent years, leasing activity in Lakeland's industrial market slowed a bit in 2018 based on the lack of large blocks of contiguous space. Despite that, vacancy rates still dipped a bit to 3.8% based on the addition of several new large tenants to the market. Industrial market analysts project that Lakeland is positioned quite well, demonstrating strengths in both affordability and absorption.

In 2018, Lakeland lead the Tampa Bay region with 1.8 million square feet of new space delivered, which has marked the most active year since 2006. With many new industrial projects planned, 2019 is proving to be another active year. The influx of new space should help vacancy rates remain stable as new inventory is constructed and demand increases. With that, Lakeland's industrial market is positioned well and will continue to add square footage in 2019.

Though the market has not produced as much available inventory as past years, leasing activity is strong and will continue to erode available vacant space. Unemployment rates within the City of Lakeland continue to decline, with the year-end rate for 2018 dropping to 4.0%, which is 0.8% less than the 2017 rate and 1.5% less than the recorded rate for 2016. Lakeland's industrial market continues to expand as many organizations add jobs and make investments in new and existing facilities.

The Lakeland MSA more than doubled the number of new jobs added in 2018, with 9,200 new jobs added. From a percentage standpoint, several industry sectors experienced positive year-over-year gains, with the most substantial coming in professional and business services. This employment sector grew by 10.79% from 2017 to 2018, with 3,300 jobs added. Growth from all of Lakeland's professional industry sectors is a key indicator that aligns well with the fundamental health and expansion of the industrial market.

After seeing industrial vacancy rates peak in 2009 around 8%, Lakeland has experienced a continued drop in vacancy and currently registers one of the lowest overall vacancy rates in the U.S. primary industrial market. By the close of the fourth quarter of 2018, Lakeland's industrial vacancy rate was a very low 3.8%. Demonstrating the health of this sector, Lakeland has registered 29 straight quarters with a vacancy rate at or below 6%. Lakeland's consistency and demand can be partially attributed to the area's economical lease rates. Similar to absorption, lease rates peaked in 2009 and then went on a steady decline over the next several years. As vacancy rates dropped, rental rates began to expand as the amount of available industrial space became harder to find. Asking rates for 2018 in Lakeland were down by nearly 3% from the prior year as several higher valued products were taken out of the market. With this reduction, manufacturing, warehouse and distribution averaged a combined \$5.38 per square foot (psf) at year's end. This rate highlights a fair balance in availability, though new space is required to keep up with the demand shown in the Lakeland market. With several large speculative products under construction and being planned for, it is expected that rental rates to climb in 2019 as demand and interest continue.

Environmental Scan – Land Development

Downtown Activity

Lakeland's downtown is poised for a significant expansion in 2019. After a long wait without any significant new construction, downtown Lakeland will see many new projects beginning this year that will change the area and will add value for its Citizens. From a residential standpoint, the Mirrorton Development located just north of Lake Mirror broke ground this Spring. The project consists of 305 apartments and townhomes and will feature many amenities that will attract new residents to downtown Lakeland. More residential is planned in the Garden District, just east of Lake Mirror and north of Oak Street, between Tennessee and Kentucky Avenues as developers explore options for more units that can accommodate the increase in demand. The additional units will, in turn, help spur additional retail, office and entertainment in downtown.

Functioning as a successful urban area, Lakeland will see a new 850 space parking garage constructed in the City's downtown on the Heritage lot, south of Lemon Street and between Kentucky and Tennessee Avenues. This garage will also feature a 40,000-square foot speculative office building that will front Orange Street. Lakeland's growing office market will be supported by an additional 18,000 square foot building which will be constructed on the east side of Lake Mirror this year as well as the much-anticipated completion of Catapult 3.0 which will further infuse a culture of small business and entrepreneurialism in downtown Lakeland.

Lakeland is set up to offer a variety of mixed-use options utilizing the City's various shopping, dining and cultural amenities. For years, multi-story downtown buildings were utilized as retail and office components, standing as a crucial measure of the City's economic health. With both residential and office growth downtown, it is anticipated that 2019 will reveal a new wave of development and redevelopment opportunities in Lakeland's urban core.

Other Land Development Trends

With an increase in new residential construction balancing consistent commercial and industrial activities throughout the City's core, Lakeland is positioned well for growth. For nearly a decade all types of construction and development-related activities boomed in Lakeland. Projects in north, south and central Lakeland brought residential elements with retail, commercial and office to support. Though the most recent recession and economic turbulence brought many projects to a sudden and expected halt, today, development interests and projects are returning, as there is an overall great interest in Lakeland. Recognizing the community's interest in resurging neighborhoods, redevelopment activities in Lakeland continue to do well within a number of specifically targeted areas. Property acquisitions throughout the City's central core have begun to bring a pattern of change. Residential demolition and infill opportunities have brought new businesses, owners and families into previously established neighborhoods, while commercial, office and retail activities are bringing new jobs and industry. This rise and success of redevelopment activities is a trend that will endure. With well-designed neighborhoods and geographically significant areas with character and charm, redevelopment offers a number of opportunities that are certain to preserve and enhance certain targeted commercial corridors and residential neighborhoods by providing additional economic stability from within.

Environmental Scan – Population

Population

In 2018, the University of Florida’s Bureau of Economic and Business Research (BEBR) estimated Lakeland’s population at 105,586 and Polk County’s at 673,028. By all accounts, Florida’s recent population is growing by more than 1,000 residents per day. The US Census Bureau estimates Florida’s 2018 population at 20,840,568, which ranks the state as the 3rd most populated in the US. Though Lakeland’s growth is not as rapid as the state or county, it is averaging a pace of just over 1% annually since 2010. With regards to Lakeland Electric’s service territory, for 2018, the population is estimated at 288,157 which represents a 1.65% increase from the prior year. This increase indicates that the residential construction market in the unincorporated area is expanding at a greater pace than the in-city market.

“Lakeland saw a 58% increase in residents aged 45-64 from 2000 to 2018”

Population by Age-Most Current Data

Age	1990	2000	2018
Under 5	4,464	4,832	5,721
5 to 14	8,150	9,280	11,613
15 to 24	9,914	10,748	14,502
25 to 34	10,003	9,802	12,852
35 to 44	8,679	9,582	11,849
45 to 54	6,316	8,817	12,050
55 to 64	6,918	7,345	12,705
65 to 74	8,667	8,347	11,689
75 to 84	5,669	7,049	8,052
85+	1,796	2,650	3,082

Data from US Census Bureau ACS 2016-2018 (three-year rolling average)

Figure C-4: Population by Age

Environmental Scan - Employment

Employment

Local Employment

Existing and new companies in Lakeland are helping to fuel the City's growing population which has a direct correlation in the local unemployment rate. The average level of unemployment during 2018 declined month-over-month by 1.3% points, peaking at a high of 4.9% in January and dropping to 3.6% in December. Employment opportunities grew throughout the year thus allowing Lakeland's overall annual unemployment rate to drop from 4.8% in 2017 to 4% in 2018. This decrease marked the 8th consecutive annual drop in Lakeland's unemployment rate since it peaked at 11.7% in 2010.

Consistent with an expanding population, Lakeland's labor force grew to 47,407 in 2018. This represents a 1.76% increase from the previous year and a 9.7% increase since 2010. Lakeland's economic health relies on job growth. As new companies locate in Lakeland and existing ones continue to expand and grow their workforces, new jobs are required so that the City can balance available job opportunities with new residents, thus allowing the City's overall unemployment rate to remain stable and low. For 2019, Lakeland's unemployment will remain constant, dipping into the mid 3% range and stabilizing near 4% as an annual average.

National Employment

US unemployment ended 2018 at a very low 3.8%. For the first two months of 2019, the US averaged job gains of 180,000 per month. Forecasters believe that the labor market will continue to tighten as job growth continues, which will further shrink the national unemployment rate. Nationally, employment in the industries of health care, personal care, social assistance and construction continue to make the largest gains. Other areas of growth are in education, where 1.8 million jobs will be added by 2020. In line with the growth in education jobs, the Bureau of Labor and Statistics states that jobs requiring master's degrees will grow quicker than those that only need a high school diploma. The nation's unemployment rate will continue to fall throughout 2019, with economists predicting a rate of 3.4% by the end of the calendar year.

Economy

The National Economy

The US economy remains healthy as key economic indicators show positive growth and stability. The most essential measurement for this is the gross domestic product (GDP), which is the broadest of all economic indicators and is the standard for the Federal Reserve's interest rate policy. After finishing 2018 at 2.9% GDP looks to remain in the optimum range for 2019 hovering between 2% and 3%. This estimate is primarily reflected upon federal spending and import activity. Current economic policies, along with a gradual increase in federal interest rates and a US-China trade war and the aftereffects of the government shutdown, all factor into a projection that will see GDP shrink to 2.4% for 2019. Even with the talks of shrinking GDP, there seem to be more positive factors in the US economy than there are negatives. Consumer spending, which accounts for two-thirds of economic activity, grew at a pace of 2.6% in the 4th Quarter of 2018. This growth has outpaced early projections and is continuing to rebound since an unexpected decrease in December. This spending is being elevated by a strong labor market, higher home values and expanding wages. A moderately growing economy, along with a healthy job market and slowing inflation, will likely set a clear path for the Federal Reserve to gradually increase and stabilize interest rates throughout the course of the year.

Summary

The US economic outlook is healthy, and the national economy will continue to expand throughout 2019. Forecasters believe that US GDP will stay settled at 2.4% for 2019. Despite dropping a bit in the 4th Quarter of 2018, the year over year averages remain situated for positive growth. Consumer spending, housing and employment continue to lead the way as wages and income slowly begin to rise. The stability of interest rates will positively affect consumer confidence which will have a favorable impact on the housing market and general consumer spending. Inflation will rise slightly from 1.9% in 2018 to 2.2% in 2019. This will be an area to watch, as some businesses will absorb the costs while others will pass the increased expenses of material, equipment and labor along to their customers. Hiring demand has begun to outpace the available workforce entering the labor market. Gains in productivity will come as a result of increased business spending, which will ultimately benefit workers with efficiencies born out on new technologies. Unemployment numbers will continue to decrease to the mid 3% range which should continue to drive up employee wages. Most economists agree that 2019 will be a productive year with passive economic growth and little threat of a recession.

Environmental Scan - Technology

Technology

To the Citizens of Lakeland, we are one. We are not individual business departments. We are just “The City of Lakeland”. This requires that we act and serve as one. It requires coordination and communications among all City staff in our many different lines of business. Information Technology (IT) can help us achieve the vision of one coordinated, efficient and effective service organization.

Achieving a vision requires planning. To achieve our strategic business plan requires associated IT plans. Through these plans, we can properly scope prioritized IT projects which will result in measurable improvements for the City. Our IT systems are highly integrated which helps achieve the vision by enabling our City staff to share information across departmental boundaries and accomplish the right work, at the right time, with a high quality of performance.

We all know that a lack of coordination among team members creates chaos. Likewise, a lack of IT cross-departmental architecture planning will create technology chaos along with high costs and poor performance. We cannot afford to let this happen. As IT cloud vendors dominate the future of technology with lofty promises, we must be diligent about City of Lakeland IT planning and coordination. We must take advantage of the many great IT opportunities while avoiding the chaos that can be created by implementing disparate systems without a well-established IT plan.

The City of Lakeland has the business skills and the IT talent to accomplish the vision. We have many business and IT team members who are excited about the possibilities with the Internet-of-Things (IoT), data analytics and business-process-automation using web and mobile technologies that put IT services directly in the hands of our Citizens. Our challenge is to identify and prioritize the projects with the greatest potential and pay-back to our Citizens and then staff those projects with the right business and IT skill sets and management direction to accomplish great things.

The Department of Information Technology (DoIT) has implemented industry standard best practices for project management, IT architecture, requirements definition, development, testing and systems deployment. We manage service delivery using key success indicators to ensure timely resolution of problems and excellent business-customer service. The City has an excellent data center, hardware and fiber infrastructure for high performance IT delivery and timely disaster recovery in case of emergencies. We are well prepared to meet the IT needs of the City and we want to be the primary trusted partner for our business customers.

Environmental Scan - Legislation

Impact Fees

In the past several years, legislation has been filed that would prohibit Cities and Counties from applying impact fees for a period of 3 years, unless approved by a 2/3rd Commission vote. In addition, proportionate share mitigation for transportation and school concurrency could not be applied during the same period unless also approved by a 2/3rd Commission vote. These bills would have effectively prohibited the implementation of impact fees and were a direct assault on home rule authority. If such legislation were to pass, local governments would be unable to properly fund transportation and growth without collecting impact fees. To defer impact fees for 3 years would be to defer the cost to the taxpayers in the community.

Position: Oppose legislation that would prohibit the implementation of impact fees by cities and counties.

Affordable Housing – SHIP & SAIL

The two-primary state housing assistance programs are the State Housing Initiatives Partnership (SHIP) and the State Apartment Incentive Loan (SAIL) programs. The SHIP program provides funds to eligible local governments, using a population-based formula, to address local housing needs as identified in the Local Housing Assistance Plan, for single-family units. The SAIL program provides low-interest loans on a competitive basis for multifamily affordable housing developments. Funding for these programs is provided by the Legislature through the Local Government Housing Trust Fund (SHIP) and the State Housing Trust Fund (SAIL). Estimates from the Revenue Estimating Conference show that the Trust Funds should collect more than \$328M from documentary stamp taxes on real estate transactions for 2019-2020.

SHIP and SAIL funding are critical components of Lakeland's affordable housing and neighborhood stabilization efforts. The City is able to use these funds to leverage additional Federal dollars through CDBG and HOME grants to assist low-income families. However, since the recession in 2009, funding levels for cities through SHIP have been erratic as the funds have been diverted during the State Budget process, making it difficult to properly plan projects. In FY 2017-18, Lakeland received \$439,440, but in FY 2018-19, that number dropped to \$152,392. Lakeland is approximately 500-700 housing units short of the need in our community.

Position: Support increased funding of the State's SHIP and SAIL programs in the 2019-20 Budget. Identify opportunities to reduce the shortfall in low income housing units in Lakeland.

Environmental Scan - Legislation

Florida Polytechnic University

Florida Polytechnic University welcomed the first class of students to Florida's 12th University in August 2014. Currently, the 1,424 students are focusing their education on STEM programs, primarily technology and engineering, at the 530-acre campus located at the intersection of I-4 and the Polk Parkway.

Florida Polytechnic University is seeking operational funding from the Legislature in the 2019-20 Budget, as well as \$11 million for construction of an Applied Research Center.

In 2016, Florida Polytechnic University announced SunTrax, a partnership with the Florida Turnpike Enterprise to create a test track facility to the southeast of the main campus. The 2016-17 Budget provided \$48M to purchase right-of-way, all PD&E studies and construction of the new facility, as well as to 4-lane the last section of the Polk Parkway. The SunTrax facility should further the opportunity for Florida Polytechnic University to turn in to a catalyst for future development in northeast Lakeland.

Position: Support Florida Polytechnic University's 2019-20 funding requests, \$46 million in base budget as well as the \$11 million Applied Research Center Public Education Capital Outlay (PECO) project.

Polk State College

Polk State College is seeking an increase of \$2 million in recurring operating funds to lessen the academic advisor to student ratio. Polk State predominantly serves low-income and first-generation-in-college students that require comprehensive, personalized services to help them succeed.

In addition to the increase in operating dollars, Polk State College is seeking additional PECO funds in the 2019-20 Budget for projects currently underway. \$16 million is necessary for the Winter Haven Building Number Four maintenance and renovation.

Position: Support Polk State College's 2019-20 funding requests, \$22 million in base budget as well as PECO projects.

Environmental Scan - Legislation

Communications Services Tax

In 2001, the Legislature restructured taxes on telecommunications, cable, home satellite and related services. The changes replaced and consolidated seven different state and local taxes and fees into a single tax with two centrally administered parts – the state Communications Services Tax and the local Communications Services Tax (CST). The local CST is one of the main sources of general revenue for Cities, generating more than \$400 million annually statewide. Last year, the CST generated \$4.5 million for the City of Lakeland. The revenue may be used for any public purpose, including public safety and to secure bonds.

The CST Work Group, reviewed tax policy, historical trends, usage of the revenue source by local governments and fairness of the tax structure. The Group submitted recommendations to the Legislature that included complete elimination of the CST. During the 2015 Session, the Legislature reduced the State portion of the CST by 1.73%, without reducing the local portion.

Position: Oppose legislation which seeks to modify, restrict or eliminate the authority of municipalities to collect or spend the Communications Services Tax.

Local Business Tax

Cities may impose a Local Business Tax on certain businesses, professions or occupations. Cities have very little flexibility in determining the type and amount of the taxes or when any increases may be considered. Revenues from the Local Business Tax are used to assist in funding general government services critical to business, such as zoning, code enforcement and Police and Fire services. Revenues can also be used to spur economic development programs. Many cities, like Lakeland, use the tax as general revenue funds and have pledged the revenues to secure debt. In addition, the Local Business Tax is also the most comprehensive way of knowing what businesses are operating within the community, which enables the City to allocate resources appropriately. The Local Business Tax generates more than \$120 million annually statewide. Last year, the Local Business Tax generated \$1.5 million for the City of Lakeland.

Position: Oppose legislation which would place restrictions on the authority of municipalities to collect or spend Local Business Taxes.

Commercial Lease Sales Tax

Legislation has been introduced in recent years that would gradually eliminate Florida's sales tax on commercial leases. Florida is the only state that currently collects the tax, approximately \$2 billion per year. Over the past two years, the Legislature has included cuts to the Commercial Lease Sales Tax in the Budget, reducing it by 0.2% in 2017 and 0.3% in 2018. The current tax rate is 5.5%.

Position: Monitor legislation which would decrease or eliminate the sales tax on commercial leases.

Environmental Scan - Legislation

Florida Sports Development Program

In 2018, Legislation was introduced that would repeal F.S. 288.11625, which governs the Florida Sports Development Program. Under the current statute, the Department of Economic Opportunity evaluates proposals from sport franchises and complexes seeking Florida tax revenue. Once a project is approved, the funding must be approved by the Legislative Budget Commission. The State can award up to \$13 million annually for all certified applicants, with a maximum distribution per franchise of \$3 million per year, for up to 30 years.

While this is not the same Statute that governs Spring Training funding, F.S. 288.11631, there is concern that eliminating the Statute for sports franchises could lead to further repeals, such as Spring Training funding. The City of Lakeland utilized 288.11631 back in 2014 to expand and remodel Joker Marchant Stadium. By doing so, Lakeland secured its relationship with the Detroit Tigers as their Spring Training home for another 20 years.

Position: Oppose legislation which would repeal Florida's Sports Development Program.

Municipal Election Dates

Legislation has been introduced for the past couple of years that would have preempted to the State the authority to establish municipal election dates. Cities would have four options to choose from for their election dates - the General Election date in November of even-numbered years, the first Tuesday in November of odd-numbered years, or the 3rd Tuesday in March of either even or odd numbered years. As a basic function of home rule authority, cities should retain the authority to determine when their elections are held.

Position: Oppose legislation dictating when municipal governments can hold their elections.

Community Redevelopment Areas

Legislation introduced during the 2018 Session would have increased auditing, ethics and accountability measures on existing Community Redevelopment Areas (CRAs), as well as eliminate the ability for cities to create new CRAs to address blighted communities.

CRAs were established to encourage new development and growth in blighted areas of a city or county. Through the use of tax increment financing, projects specifically tailored to redeveloping the community are put in place to increase property values, without increasing or levying any new taxes. There are currently 222 CRAs throughout the State of Florida. The City of Lakeland has 3 highly successful CRAs – Dixieland, Downtown and Midtown – where property values have increased, on average, by 14% over the past 5 years.

The City of Lakeland recognizes the need for a common goal of accountability for CRAs and their governing boards to ensure that the public's money is being spent appropriately and effectively. However, eliminating CRAs as a tool for local governments to revitalize communities would do more harm than good.

Position: Oppose legislation which eliminate the ability for cities to utilize CRAs for revitalization of blighted communities.

Environmental Scan - Legislation

Public Broadband Access

One of the City of Lakeland's priorities is to create a world class community for its residents and businesses. Affordable high-speed internet access is a key component for economic development, growth, opportunity and innovation, as well as increased quality of life.

Several states have recently considered measures that would severely restrict the ability of municipalities to provide broadband access to their constituents. These restrictions often go beyond the implementation of special taxes on telecommunications services (such as Florida's CST), and instead seek to make it impossible for municipalities to provide telecommunications, cable or broadband services. Such restrictions would only serve to deprive residents and businesses of affordable service.

Position: Oppose legislation which would restrict the authority of municipalities to provide, or partner with internet service providers to provide, public broadband to its citizens and business community.

Building Inspector Certifications

Local governments throughout Florida are experiencing a shortage of qualified building code inspectors and plans examiners. This shortage of qualified candidates, and inability to fill vacant positions, has led to costly delays for customers throughout the State.

A major contributing factor to the shortage is an interpretation by the Florida Building Code Administrators & Inspectors Board of those individuals qualified to sit for certification exams. To be eligible to sit for the exam, a candidate must provide evidence of five (5) years of combined experience in the field of construction, building code inspection or plans review. In order to qualify as a single-family dwelling inspector, the candidate must show experience in building, mechanical, plumbing and electrical. Instead of interpreting this as 5 years of work, the Inspectors Board interprets it as 5 years in each field, for a total of 20 years of experience before candidate is eligible. Once eligible, the candidate must still sit for 5 exams in each of the specific trades in a one-year period, an arduous task for someone working full-time, with a family.

Legislation will be introduced that will address the experience requirements as well as provide additional time to pass the 5 exams. Lakeland will work with Polk County and the Homebuilders to address this critical issue. Increasing the number of competent, qualified inspectors will have a positive impact on the future growth of the region.

Position: Support legislation which increases the pool of qualified candidates for building code inspector and plans examiner certification.

Environmental Scan - Legislation

Sovereign Immunity

Legislation presented in the House in 2013 attempted to revise the Claims Bill process and increased sovereign immunity limits for local governments. The bill would have increased limits from \$200,000 per person & \$300,000 per incident to \$1,000,000 per person and \$1,500,000 per incident. If a local government self-insured against negligence lawsuits, in an amount greater than 3x the cap on damages, then the local government is only responsible for the deductible under the policy. However, increases of this magnitude would result in dramatic increase in costs for cities and counties.

Position: Oppose legislation increasing sovereign immunity limits on local governments.

Presumptive Disability

In 2007, legislation passed that establishes lower compensability standards and increases workers' compensation benefits for Law Enforcement Officers, Firefighters, Emergency Medical Technicians, Paramedics and Volunteer Firefighters. In addition, the legislation furthers the existing provisions that create a presumption that certain conditions are work-related injuries by extending the presumption to certain mental conditions, without requiring proof of a physical injury.

Self-insured local governments, such as Lakeland, have experienced dramatic increases in their workers' compensation rates for conditions that are entitled to the statutory presumptions, and corresponding increases in the cost of claims against the City.

Since 2000, judicial decisions have eroded the ability of local governments to defend cases arising from the medical conditions of Law Enforcement Officers and Firefighters. Presumptive disability decisions create a high standard for the burden of proof for local governments to disprove any injury in cases related to some heart and lung conditions in Law Enforcement Officers and Firefighters.

In 2011, the Legislature created the Presumptive Disability Task Force to review all aspects of how presumptive disability is being applied in Florida and provide recommendations to the Legislature. Consensus issues included health and wellness factors, such as non-use of tobacco products, minimum fitness standards and increased counseling opportunities, as well as a legislative actuarial study to determine the funding costs of presumption claims. The Legislature has not yet addressed these recommendations.

In 2017, legislation was filed that would have provided that death or disability due to cancer suffered by a firefighter or paramedic is presumed work-related and would qualify them for workers' compensation and disability pension benefits. The bills did not pass during the Session.

Position: Oppose legislation which would expand presumptive disability standards to cancer without taking all factors into consideration first. Support legislation to address the Presumptive Disability Task Force findings.

Environmental Scan - Legislation

School Safety

Following the February 14, 2018 tragedy at Marjory Stoneman Douglas High School in Parkland, Florida, the Legislature passed a comprehensive bill that addressed multiple aspects relating to the shooting. The Marjory Stoneman Douglas Public Safety Act, signed into law by Governor Scott, dealt with the provision of increased mental health and threat assessment services in public schools; greater sharing of information between state and local agencies and the courts; authorized sheriffs to appoint trained individuals as school guardians; enhances penalties for those who post or transmit threats of mass shootings or act of terrorism; raises age limit to purchase firearms to 21; and expands 3-day waiting period for handguns to all firearms and bans possession of bump stocks.

The 2018-19 State Budget allocated \$67.5M for the Aaron Feis Guardian Program, statewide. School districts that chose not to participate in the Guardian Program are required to provide for a School Resource Officer in each school, one for every 1,000 students. The Legislature allocated \$97.5M, statewide, for the Safe Schools Allocation. (Average costs: Guardian - \$7,500 training; SRO - \$142,000 initial, \$77,635 recurring) In Polk County, Sheriff Grady Judd implemented the Guardian Program to supplement Polk's current SRO program, training armed guardians in time for the 2018-19 school year. These newly deputized guardians will serve in Polk County's public schools.

As with any major, comprehensive legislation that passes, implementation of the law has identified unintended consequences that should be addressed. One issue that has arisen is that the Safe Schools Allocation does not provide funding for charter schools. Due to the high costs of training and hiring SROs, many small budget charter schools cannot afford an SRO on campus. Another issue is that City Police Departments that provide SROs on school campuses are not funded at the same level as their counterparts at the Sheriff's Office. Lakeland PD SROs are funded by the Polk County School Board at 75% of the cost. This shortfall has led to an inability to place an SRO in every school in the City.

Position: Support increased funding of the Safe Schools Allocation to include charter schools, as well as increased funding and flexibility for City Police Department officers to provide for safety of schools and students.

Automated Traffic Enforcement Systems

Automated traffic enforcement programs have been shown to be effective in reducing the frequency and severity of intersection crashes. Lakeland enacted its program in 2008 and opposes any provision that would eliminate the City's ability to utilize this effective safety tool.

Position: Oppose legislative efforts, such as HB 6003, to repeal the Mark Wandall Traffic Safety Statute.

Environmental Scan - Legislation

Lakeland Regional Health

Lakeland Regional Health is the fifth largest hospital in the State of Florida and operates the busiest single-site Emergency Room in the State. LRH has provided health care for Lakeland's residents for more than 100 years. As such a large health care provider, legislative decisions, made in both Tallahassee and Washington DC, have a dramatic impact on their ability to provide services. LRH is actively involved in the legislative process and the City of Lakeland supports their efforts to maintain sufficient funding and stay ahead of the ever-evolving medical landscape.

A major issue that has presented itself in the Legislature relates to the Certificate of Need (CON) process. The CON program, administered by AHCA, requires health care facilities, such as hospitals, nursing homes and hospices, to obtain authorization from the State before offering certain new or expanded services. The health care facilities have to prove actual need before they can construct, expand, offer a new service or purchase equipment exceeding a certain cost. Primary functions of the CON program include ensuring quality of care and to prevent unnecessary duplication of services.

Position: Oppose legislation that would eliminate the Certificate of Need process.

Cannabis

In 2016, the Lakeland City Commission held a 5-hour community forum to hear from interested parties on whether the City should pass an ordinance that provides for an alternate adjudication process for possession of small amounts of cannabis. Commissioners heard from experts on both sides of the issue and ultimately decided not to move forward but recognize that there are issues that may be addressed at the State level, such as ensuring that enforcement procedures at the local level are adjudicated uniformly.

Position: Monitor legislation that would provide for uniformity of enforcement procedures for the adjudication of violations related to the possession of small amounts of cannabis.

A Snapshot of Lakeland's Budget

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. The revenues and expenditures associated with providing each of these services, including any capital costs associated with constructing the facilities needed to support those services, is budgeted in separate “funds” – one Enterprise Fund for each type of service.

Other services, such as the 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 day-to-day operating costs and the revenue sources that finance all those general governmental services are budgeted in the General Fund. Any costs associated with capital improvements related to general governmental services, such as construction of parks, building facilities, roadways and major equipment purchases are budgeted separately from the day-to-day operating costs in two funds, the Transportation Fund and the Public Improvement Fund. Also, separately budgeted are the revenues and expenses associated with services that are provided by City departments for the exclusive benefit of other departments. This includes certain “centralized” services such as Fleet Management, Purchasing and Warehousing, Facilities Maintenance and Information Technology. These individual services are budgeted in what are referred to as “Internal Service Funds”.

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 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 similar municipalities.

To obtain a “snapshot” of Lakeland's budget, the following table is prepared each year. It represents a compilation of the total annual amount of taxes and fees that are collected from a typical residential homeowner in the City of Lakeland, in exchange for the services provided. This table combines the cost of all the services provided by the City, across all the individual Funds, into one column of data. Included in this chart is an apples-to-apples comparison of those same taxes and fees collected by other similar city governments in the State of Florida.

For each city in the chart, the category of “Utilities” represents the cost of electric, water, wastewater and solid waste services, 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.

Financial Health

In the aggregate, Lakeland compares favorably to the other cities in this survey. At a property tax millage rate of 5.4644 mills, Lakeland's property tax burden is amongst the lowest in the State of Florida.

In addition, Lakeland's relative cost of electric power has us positioned as one of the lower cost utilities in the state, which has been aided by the significant decrease in the cost of natural gas. For the municipalities in this sample, the combined annual cost of services in Lakeland is lower than the average for the group.

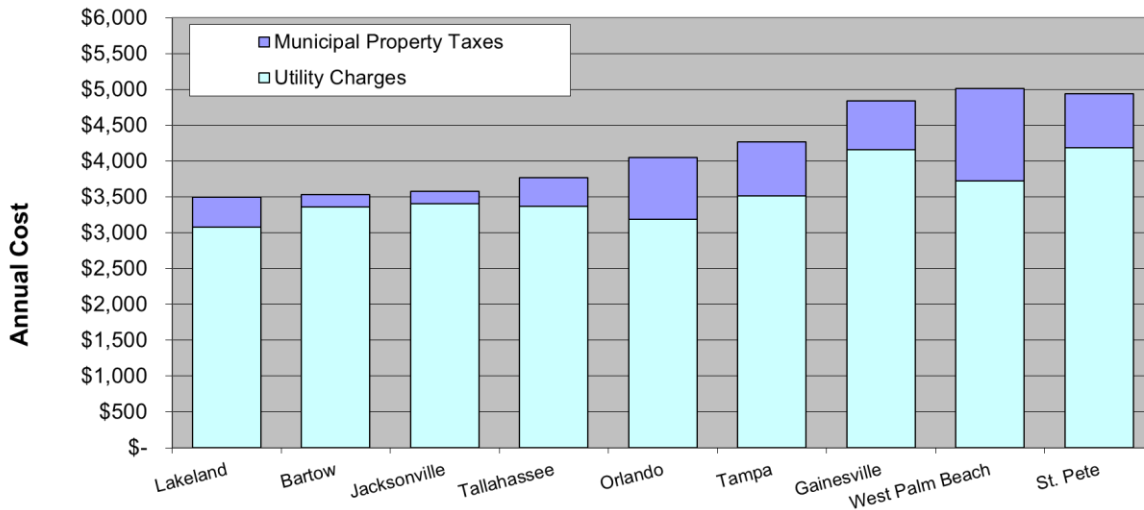


Figure C-5: Comparative Cost of Services

Three-Year Financial Forecast

A Three-Year Financial Forecast tool is used to determine what level of risk we face over the next few years, in our ability to pay for the services we provide, if we take no positive action to increase revenues or decrease cost. Revenues are projected at conservative levels over the period and are compared to estimated cost increases in payroll, operating expenditures and capital outlay. Since many of our expenditure increases are fixed and predictable, the main variables are the rate of increase in existing revenues and new programs or projects planned over the forecast period. Typically, future years show a deficit of revenues over expenditures.

The purpose of this financial exercise is to adequately prepare for future challenges, so it is always conservative in outlook. As we map out our financial and operating strategies, we will use the model to determine the potential impact of decisions. Using this tool will help keep us focused on long-term solutions, rather than short-term "fixes" which could lead to negative financial impacts in future years.

Revenue Sources

The City of Lakeland relies on a variety of revenue sources 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% of the cost of providing that service is recovered through the imposition of this user fee.

Other governmental revenues sources cannot 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 utility 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.

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 had been growing. The impact of property tax reform starting in FY 2008 and the subsequent reduction in property values, resulting from the economic conditions, has reversed that trend somewhat. Total taxable values within the city limits are decreasing in FY 2020 compared to FY 2019. The proposed millage rate for FY 2020 is 5.4644, the same as FY 2019.

Public Service Taxes, Franchise Fees and Communications Services Tax

The City levies:

- A 10% Public Services Tax on the purchase of electricity, metered natural gas, liquefied petroleum gas (metered or bottled), manufactured gas (metered or bottled) and water service within the municipality.
- A tax on fossil fuel oil in the amount of 4 cents per gallon.
- A Communications Services Tax applies to telecommunications, video, direct-to-home satellite and related services. Communication services, except direct-to-home satellite services are subject to a combined rate of 7.44%. Direct-to-home satellite service is subject to a combined rate of 11.44%.
- 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% of monthly gross revenues.

Half-Cent Sales Tax Revenues

County and municipal governments in Florida are entitled to a distribution equal to 9.653% 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 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.

Revenue Sources

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.

Business Tax Revenues

The City issues receipts 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% per receipt.

Building Permit and Inspection Fees

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.

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, most 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 its funding for law enforcement.

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. 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

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 through 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

Most 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:

- Proceeds from the sale of cemetery lots
- Contributions and donations from private entities
- Cost reimbursements collected from other City funds/departments

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, 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 inter-local agreement. Per that inter-local 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.

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 inter-local 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.

Revenue Sources

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 inter-local 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.

Historical Revenues

Historical Revenues

A historical look at the Governmental Activities Tax Revenues by Source is included in the chart below.

CITY OF LAKELAND, FLORIDA

GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE (UNAUDITED) LAST TEN FISCAL YEARS (accrual basis)

Fiscal Year	Property Tax	Utility & Communication Service Tax	Motor Fuel Tax	Franchise Tax	Half Cent Sales Tax	State Shared Revenues				Total
						State Revenue Sharing	Mobile Home License Fees	Alcoholic Beverage Tax	FF Comp Tax*	
2018	\$ 37,045,511	\$ 14,758,072	\$ 5,828,014	\$ 247,128	\$ 6,586,865	\$ 2,805,371	\$ 246,617	\$ 88,162	\$ 64,346	\$ 67,670,086
2017	33,362,591	14,735,018	5,584,212	234,659	6,292,201	2,699,611	232,445	93,563	69,520	63,303,820
2016	30,912,106	14,831,215	5,436,168	242,656	6,202,015	2,550,919	217,330	86,116	36,740	60,515,265
2015	23,935,374	14,644,431	5,214,687	225,994	5,656,163	2,443,691	208,150	89,776	58,355	52,476,621
2014	22,577,691	14,534,094	4,903,358	239,500	5,395,592	2,248,500	197,654	80,487	32,895	50,209,771
2013	21,784,397	14,523,106	4,879,101	234,959	5,098,715	2,078,795	188,449	76,919	39,182	48,903,623
2012	20,909,045	14,761,856	4,910,650	233,641	4,817,062	2,060,351	184,560	79,897	44,441	48,001,503
2011	22,641,400	15,057,722	4,943,075	247,092	4,486,691	1,799,097	189,840	71,750	26,410	49,463,077
2010	24,651,942	14,979,375	4,914,311	266,727	4,287,133	1,789,260	190,380	69,789	32,115	51,181,032
2009	25,618,865	15,202,390	4,932,542	251,344	4,478,244	1,801,908	192,284	71,405	46,630	52,595,612

*Firefighters' Compensation Tax

Figures C-6: Governmental Activities Tax Revenues by Source

Debt Management Overview

Debt Management Overview

For the purpose of funding capital improvements to City facilities and infrastructure, 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. 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, particularly those of the City’s utilities. As of September 30, 2018, the City had outstanding long-term debt of \$622.1 million.

Purpose of Debt

Debt issued by the City is incurred to fund capital improvements to three major categories of assets: the electric system, the water and wastewater system and all other projects. Some 66% of the City’s outstanding debt funded electric system improvements. Water and wastewater projects make up another 13%, while all other uses account for the remaining 21% of outstanding debt.

Electric system improvements include construction, purchase 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 City-owned baseball Spring Training complex, Lakeland Linder International Airport, the RP Funding Center, local roads, public safety facilities and parks and recreation facilities.

As shown, some 79% of the debt incurred by the City is for the provision of basic utilities, e.g., 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 private investor-owned utility companies. In those communities, the debt used to finance electric utilities would appear in the financial statements of the private corporations, not those of 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.

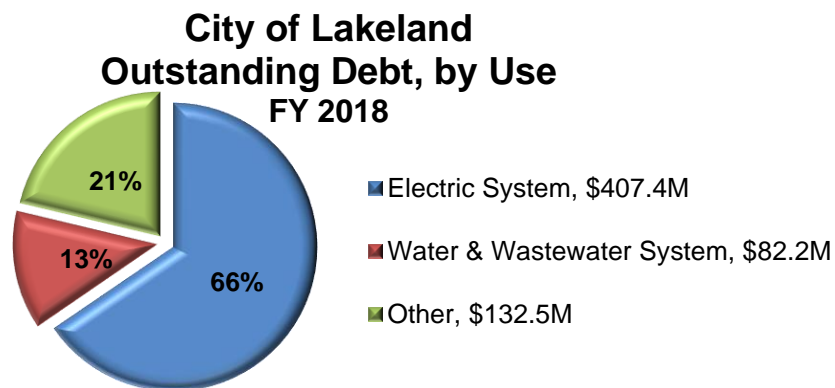


Figure C-7: Outstanding Debt by Use
Fiscal Year 2020 Annual Budget

Debt Management Overview

Types of Debt

The City’s long-term debt consists primarily of revenue debt. Revenue debt is issued under trust indentures that specify the security for and specific source of repayment for the debt. City debt is issued in one of two forms, bonds or loans. Bonds are formal borrowings issued publicly through Wall Street to investors. The City’s loans consist of certain bank loans which are negotiated directly with lenders and monies borrowed through the State Revolving Loan program. As of September 30, 2018, the City had \$440 million of bonds outstanding (76%) along with \$141 million of loans (24%).

The City of Lakeland has three distinct revenue debt programs which are summarized in the table below. Revenue debt consists of a promise to repay bonds from a specified revenue stream. As shown, the overwhelming portion of the City’s revenue debt (\$490 million - 79%) is utility system related. It is user-based debt, issued for utility system improvements and repaid from the fees charged to the users of those utilities. These forms of debt are not subject to specific legal debt limits but are instead limited by the competitiveness of the rates and charges which must be imposed to repay the debt and rating agency criteria related to such systems.

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 approval through a referendum. Florida Statute does not provide any limits on the amount of general obligation debt a city may issue. The City’s Charter does provide for a limit on the issuance of general obligation debt equal to 17% of the assessed value of the taxable real estate in the City. For FY 2018, that limit would have been approximately \$1.013 billion. However, the City has not had any general obligation debt outstanding since 1971.

City of Lakeland Revenue Bond Programs 9/30/2018				
Type	Source of Repayment	Amount Outstanding	Outstanding Through	Interest Rate [b]
Energy System	Rates, fees, charges and other operating revenues of the electric system – primarily payments from electricity customers	\$407.4M [a]	2037	2.00% to 5.25%
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	82.2M [c]	2033	0.44% to 5.00%
Capital Improvement	Non-ad valorem revenues from any source legally available (not including ad valorem taxes on real and personal property), subject to availability and appropriation	132.5M [d]	2040	1.75% to 6.03%
[a] Includes \$97.0 million of variable rate debt [b] Coupon rates; effective yields differ due to original issue price and/or federal subsidies [c] Includes \$9.4 million bank loan and \$37.5 million of State Revolving Fund loans issued under bond indenture [d] Includes \$ 35.5 million of bank loans				

Figure C-8: Revenue Bond Programs

Debt Management Overview

Debt Trends

Overall Debt: Over the last decade the City's outstanding debt has dropped, declining by 15% (\$149 million) since FY 2008. The most significant increase in the City's outstanding debt (\$144 million) occurred in FY 2001 when the City issued bonds to fund the conversion of one of the Electric Department's major generating assets. Similarly, the City issued \$60 million of new debt in FY 2008, which was used to fund environmental remediation improvements to the City's coal-fired electric generation plant. City debt peaked in that year at \$733 million and has since declined by some \$149 million.

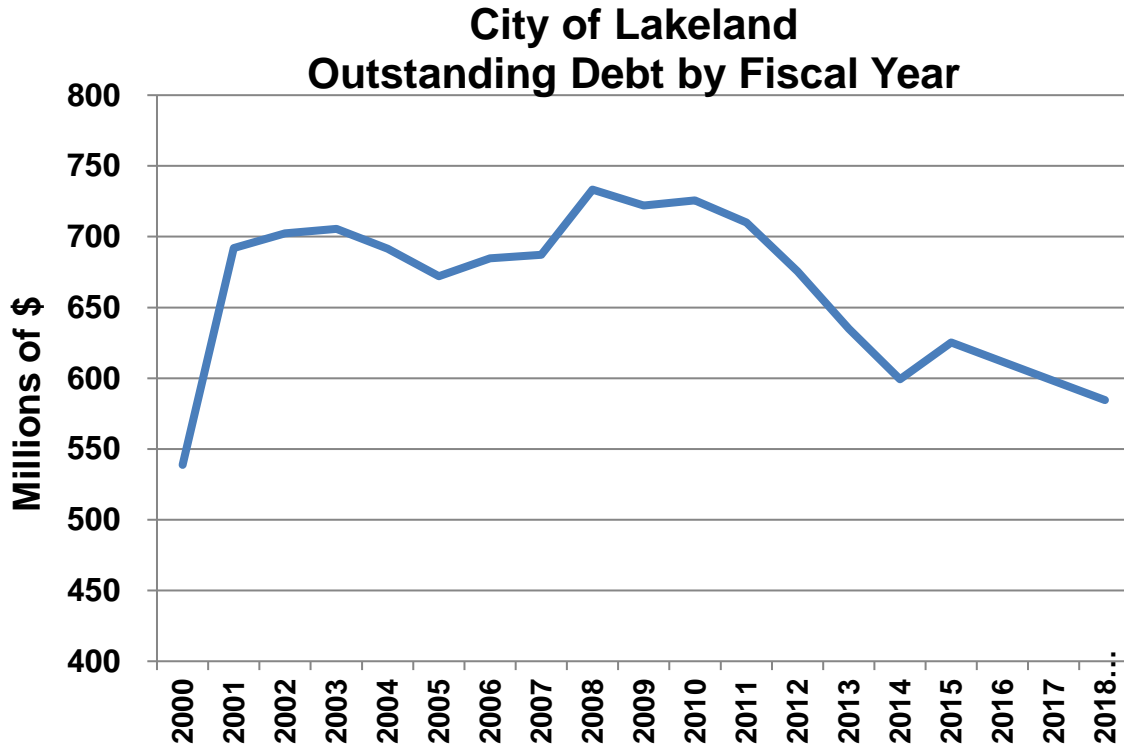


Figure C-9: Outstanding Debt by Fiscal Year

During FY 2018, overall debt declined by approximately \$14 million, because of regularly scheduled principal repayments exceeding new debt issuance. During FY 2019, outstanding debt is expected to decrease by about \$38 million due to scheduled principal repayments of \$39 million.

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. Debt as a percentage of personal income measures outstanding debt against an area's ability to pay for projects. As shown on the following page, Lakeland's debt per capita has declined since 2002, reaching an estimated \$5,288 per person in 2018. Debt as a percentage of the area's annual personal income has also declined, dropping to an estimated 15.2% as of 2018. Both measures experienced a slight uptick during FY 2015 but have decreased since.

Debt Management Overview

Debt Trends (continued)

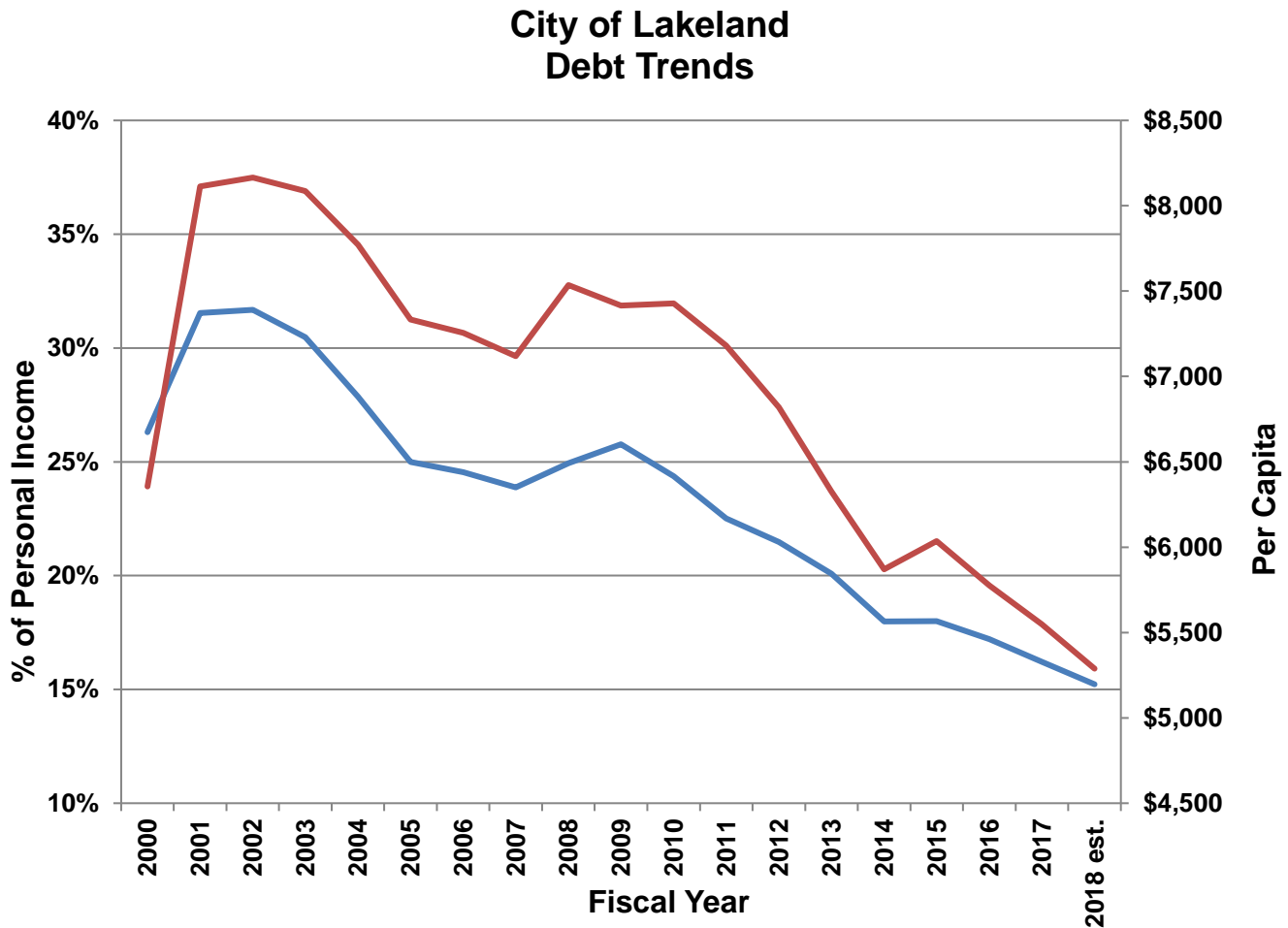


Figure C-10: Debt Trends Graph

As noted, most of the City’s debt has been incurred to finance electric system improvements. In other communities, these types 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 debt is excluded from the calculations, debt per capita would drop to \$1,591 and debt as a percentage of personal income would be about 4.5%.

Recent Debt Management Activities

During FY 2018, the City borrowed \$43.9 million through an issuance of Lakeland Electric revenue bonds. Contemporaneously, the City also terminated \$212.7 million of interest rate swap agreements, receiving a termination payment of \$2.4 million. The proceeds of these transactions are being used to fund the purchase and installation of a 125 MW gas-fired peaking unit for the utility and certain other system improvements.

During FY 2018, the City also borrowed \$10.8 million through a loan from the State Revolving Loan program to fund improvements to the City’s wastewater system.

There are no planned borrowings for the City during FY 2019.

Debt Management Overview

Debt Service Requirements

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

City of Lakeland Debt Service Requirements (FY 2018 CAFR)

Year	Governmental Activities		Business Type Activities	
	Principal	Interest	Principal	Interest
2019	4,538,293	1,915,493	33,458,337	18,329,034
2020	3,855,997	1,764,682	37,005,206	18,888,527
2021	8,117,992	1,843,905	39,889,155	17,386,268
2022	3,090,139	1,427,465	28,366,828	16,414,849
2023	5,678,215	2,004,164	24,864,919	14,514,108
2024-2028	12,303,838	5,042,853	136,586,249	57,927,668
2029-2033	10,791,936	2,690,014	135,016,189	31,543,302
2034-2038	7,600,649	503,989	126,397,141	9,523,073
2039-2043	-	-	4,571,377	221,571
	<u>55,977,059</u>	<u>17,192,565</u>	<u>566,155,401</u>	<u>184,748,400</u>

Figure C-11: Debt Service Requirements

Debt Management Overview

Ratings & Coverage

As noted, the debt of the City is almost exclusively revenue bond debt, the repayment of which is guaranteed by pledges of specific revenues, as detailed in the previous table. Before such debt can be issued in the capital markets, the creditworthiness of each revenue bond program is typically reviewed by one or more of the three major credit rating agencies (Moody's Investors Service, Standard & Poor's and Fitch Ratings).

In performing credit assessments of revenue bond programs, rating agencies consider several factors, including the:

- strength of the legal pledge involved;
- level of rates and charges relative to peers and to the economic base of the service territory;
- overall level of debt outstanding compared to the size of the operation involved;
- size of the entity's capital plan and the likelihood it will have to issue additional debt;
- ratio of net revenues (after paying operational costs) to debt service requirements ("coverage") and
- amount of cash reserves on hand.

After review, the rating agencies assign a letter grade which represents their assessment of the relative creditworthiness of the bond program. For investment grade credits, the scale runs from a low of "BBB" to "A" to "AA" to a high of "AAA", with "+" and "-" added to indicate gradations within each category. As shown below, all the City's revenue bond programs are rated in "AA" categories, which is very high. Arguably, these ratings are an independent assessment of the financial health of the business operations involved. Higher ratings also mean that the City will obtain lower interest rates when it issues debt to fund capital markets.

City of Lakeland Revenue Bond Ratings

Type	Moody's	Standard & Poor's	Fitch
Electric	Aa3	AA	AA
Water & Wastewater	Aa2	AA	AA+
Covenant to Budget & Appropriate	Aa3	NA	AA-

Figure C-12: Revenue Bond Ratings



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