
INTRODUCTION

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READER'S GUIDE

The budget process is the single most comprehensive analysis of available resources and the allocation of those resources to fund services for Everett's residents. The budget document is designed to illustrate the resources that are available for appropriation, the decisions about how to allocate the resources, and the resulting budget plan. In addition, the budget includes analysis of the long-term fiscal viability of the City's general government through 2023.

This section is designed to acquaint the reader with the overall layout and document arrangement. The budget is divided into fifteen tabbed sections, described below. Please note that six of the sections (General Government Funds, Special Revenue Funds, Debt Service Funds, Enterprise Funds, Internal Service Funds, and Trust Funds) are described below as one section called Departmental Budgets.

- The **Introduction** includes the *Mayor's Message* and related *Budget Overview*, which articulate the priorities and issues for the City's budget including organization wide long-term concerns and strategies. It also provides the reader with a brief profile of the City and the services it provides.
- The **Budget Process** section describes the process for preparing the budget and how the budget changes during the budget year.
- The **Financial Structure and Policies** section describes the City's fund structure and is intended to illustrate the policy, fiscal, and planning elements of the City financial plan as a whole. This section contains reserve fund policies and goals, ongoing budget practices, debt management policies, cash management issues, and other fiscal management topics.
- The **Financial Summaries** section contains summary financial information for the City as a whole, and revenue and expenditure summaries for the General Government.
- The **General Government Five-Year Outlook** provides a 5-year forecast of future impacts of current decisions. This outlook is instrumental in guiding the City to continued long-term fiscal strength in the context of today's challenging economic climate. For purposes of this particular presentation and analysis method, the General Government expenditure budget is divided into eight parts: legislative, departmental support, public safety, reserves, debt service, infrastructure, community programs, and governmental operations. This type of analysis provides insights not found when assessing the budget from a traditional departmental view.
- The **Capital and Debt** section describes the capital budgeting process and provides details of citywide capital expenditures and their estimated impact on future operating budgets. This section also includes data on the City's debt obligations and debt limits.
- The **Personnel Summary** provides detailed information on the City's staffing budget including staffing by service category, staffing by department, staffing changes, trends, and other personnel related information.
- The **Departmental Budgets** sections depict the specific spending plans of all departments of the City in fund number order. *These sections include all operating funds.* The department narrative layout is described in more detail in the Budget Process section (see page 2-5).
- The **Supplemental Information** section provides additional community information, demographics, and economic information.
- The **Glossary** includes definitions for many of the terms used in the budget documents as well as a list of acronyms.

CITY OF EVERETT PROFILE

The City of Everett was incorporated on May 4, 1893. Located along the shores of Port Gardner Bay, Everett is about 25 miles north of Seattle and 85 miles south of the Canadian border. The City encompasses roughly 48 square miles and is bordered by 11 miles of saltwater and 10 miles of freshwater shoreline.

Everett operates under a Mayor-Council form of government. It is a general purpose governmental entity and provides the full range of municipal services allowed by statute and charter. These services include police, fire, emergency medical services, street maintenance, planning and zoning, libraries, parks and recreation, and general administrative services. In addition to its general government services, the City operates five enterprises: water and sewer utility, solid waste (recycling) utility, two golf courses, a transit system, and a parking garage.

The City of Everett is the Snohomish County seat. With a population of 111,200, it is the largest city in the county and the seventh largest in the state.



Nestled between the beautiful Cascade Mountain Range to the east, the Puget Sound with its hundreds of forested islands to the west, and with the Snohomish River and easy-to-access lakes close at hand, Everett is a splendid place to live. The area offers a high quality of life, a vital center for businesses of all types and an important deep-water port that provides access to overseas markets.

As the county seat, Everett is the center of economic development activity in Snohomish County with an expanding high-technology industrial base and health care industry, an established, world-renowned aircraft manufacturing plant and state-of-the-art naval station.

The City of Everett is home to the second largest marina on the West Coast. The area also boasts a wide range of family-centered entertainment, cultural, recreational and educational opportunities. The climate is relatively mild year-round, with seemingly endless outdoor recreational activities.

The following information is presented to give the reader an overall sense of the service demands of the City, providing a link to the allocation of resources in the operating budget.

GENERAL DATA:

Population	111,200
Number of Active Voters.....	54,772
Number of Inactive Voters.....	8,466
Median Age of Residents	37.9 years
Assessed Valuation (2018 AV for 2019 taxes)	17,393,518,799
Full Time Equivalent Employees	1,188.33
Unemployment rate (Snohomish County, Dec 2018, not seasonally adjusted).....	3.6%
Per Capita Personal Income.....	54,576
Average Annual Precipitation	36.9 inches
Average Precipitation Days	101

LIBRARY (2018 Activity):

Branches	2
Total Number of Materials Circulated.....	1,138,700
Website use (visitors and database use).....	600,000

PARKS & RECREATION:

Number of Parks.....	45
Number of Playgrounds.....	19
Park Acreage	837
Municipal Golf Courses	2
Public Swimming Pool	1

SENIOR CENTER:

Registered Active Members	5,800
Meal Program Participants	15,400

ANIMAL SERVICES:

Total Animal Intake	4,985
Save Rate (adoption, return to owner, transfer to rescue)	91%

NEIGHBORHOODS:

Number of Organized Neighborhoods	19
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FIRE PROTECTION:

Commissioned Firefighters.....	170
Fire Stations	6
Fire Apparatus (engines, aerial ladders, etc.)	17
Medic Units	7
Fire/EMS Alarms	24,700

POLICE PROTECTION:

Police Stations	2
Commissioned Officers	206
Police Vehicles	183
Harbor Patrol Boats.....	2
Calls for Police Services	152,908

STREETS:

Paved	319.8 miles
Sidewalks	750 miles
Alleys	44 miles
Bridges	25
Street Lights	6,870

TRANSIT:

Buses/Paratransit Vehicles.....	42/26
Transit Stations	3
Fixed Route Passengers	1,795,000
Paratransit Passengers.....	129,264

UTILITIES – SEWER:

Lift Stations	35
Service Connections	23,907
Miles of Sanitary Sewer Pipes	343
Average Daily Sewage Treated (millions of gallons)	19

UTILITIES – WATER :

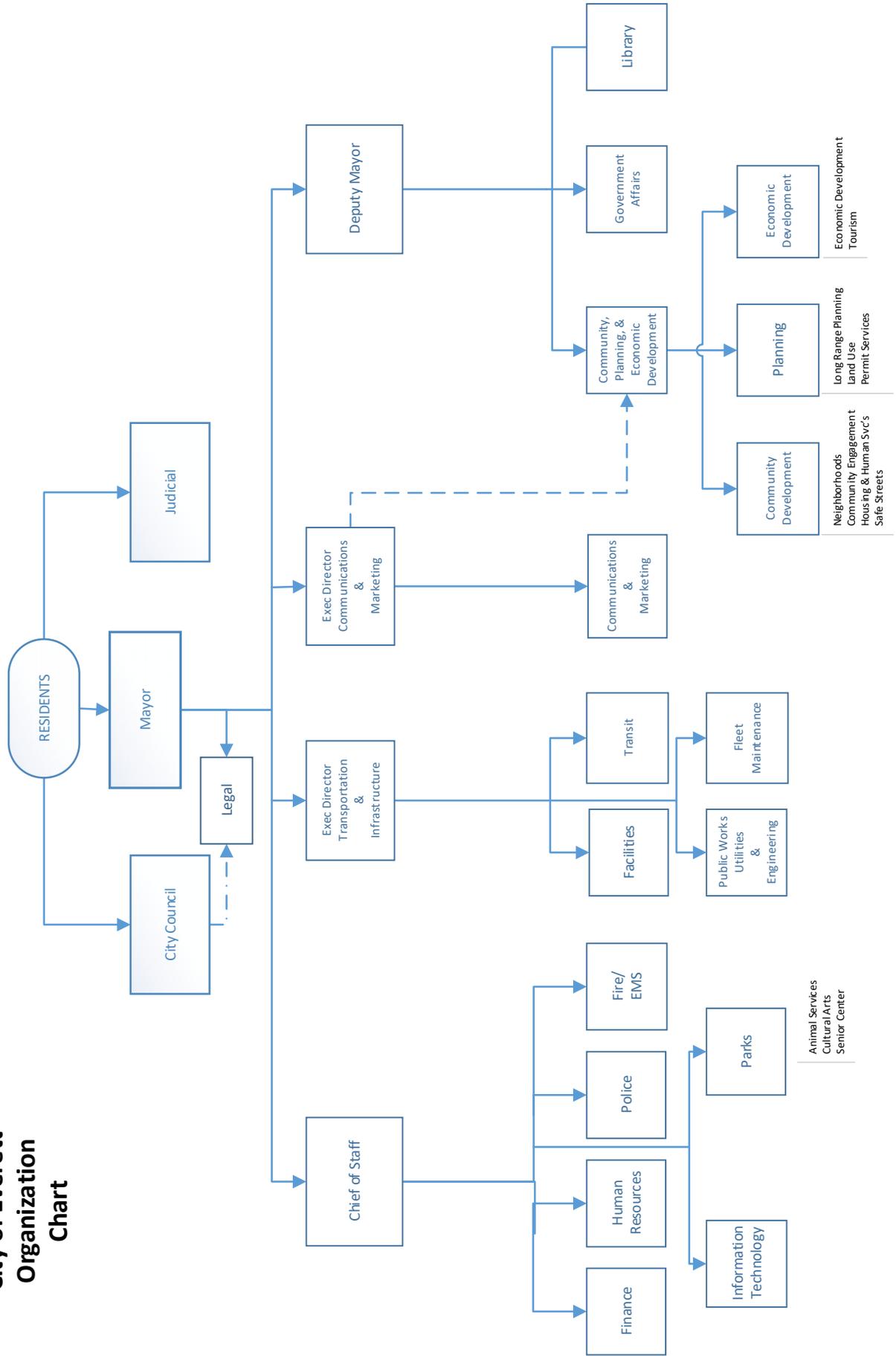
(Source of supply is the Sultan River)

Total Treated Water Delivered (millions of gallons).....	19,410
Service Connections	28,274
Water customers served by system	600,000

Please find additional community and demographic information in the Supplemental section.

<p>INFORMATION SOURCES: City of Everett web site: www.everettwa.org City of Everett Operating Budget Documents Snohomish County web site: www.co.snohomish.wa.us</p>	<p>Washington State Employment Security Department Office of Financial Management, State of Washington U.S. Census Bureau</p>
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City of Everett Organization Chart





Mayor

Cassie Franklin

Everett City Council:



Paul Roberts



Jeff Moore



Scott Murphy



Liz Vogeli



Scott Bader
President



Brenda Stonecipher



Judy Tuohy
VP



CITY OF EVERETT Office of the Mayor

Mayor Franklin's 2019 Budget Address

Oct. 17, 2018

Council President Roberts, City Council members, City staff and residents of Everett:

Tonight I am pleased to present to you a proposed balanced budget for 2019.

As you know, we began the year facing a \$13 million budget gap for 2019. Now, we have balanced the budget for the coming year, while also reducing our ongoing deficit by more than \$5.6 million.

I want to thank Council President Roberts, Vice President Bader, and Finance Chair Murphy for your leadership, as well as the Council as a whole, who have been very involved in this process. Your willingness to engage in thoughtful deliberation of the difficult options we considered was critical to the progress we have made.

I'd like to thank our exceptional finance team, led by Susy Haugen and Rae Ann Nielsen, who have worked tirelessly and provided valuable insight and leadership to help bring the budget together.

I also want to express my sincere gratitude to our entire City team, at all levels of the organization. Your thoughtful input and suggestions helped shape the budget that I am presenting tonight.

Reducing the structural deficit

Like communities throughout the state, Everett's budget deficit is tied to Initiative 747 and the cap on property tax, which limits our revenue growth while our expenses continue to rise every year. The City has faced a structural deficit for 15 years, which was made worse by the Great Recession.

When I took office in January, our deficit was projected to grow to \$16.4 million by 2020 and to nearly \$24 million by 2022. It was clear that one-time cuts would not get us where we need to be.

In February I issued a mayoral directive to address the structural deficit in a significant and sustainable way. Our goal was to make as many long-term changes as we could and ensure that our resources were aligned with the community's priorities.

From the start, this has been a very collaborative process. City team members and residents shared suggestions about how we could cut costs or realize more revenue. Our department heads also brought forward ideas for restructuring teams or changing service delivery models to reduce expenses.

We also made changes on the staffing side, reducing 18 positions citywide, for a net reduction of 14.5 positions – a total savings of \$1.8 million. Those were incredibly difficult choices to make, and there is still more to do.

We are wrapping up assessments of several departments, and we will continue to identify areas for efficiencies and improved service delivery. And as I outlined in my directive at the beginning of the year, we must explore alternative funding and delivery models for major City services, including Everett Transit, Parks, Everett Fire and the library.

Everett is unlike most Washington cities in the range of services and programs we still provide.

Most communities stopped providing these services many years ago or integrated them into regional systems. Everett maintained services, but without providing additional resources to support our growing population and changing community needs.

We are now projected to add another 70,000 residents in the next 16 years. In order to effectively meet the needs of our community, we need to look at how best to provide the public safety, transportation and quality-of-life services that make Everett an incredible place to live and work.

In 2019 we will begin a comprehensive and transparent review of our transit, parks, fire and library departments to identify the options available to us and how they will affect the general fund in the short- and long-term.

This will allow us to expand and improve our services in a way that is more resilient and regionally connected and supports the growth and economic development that continues to come our way.

Any changes to these systems will have impacts for our community members, and our analysis will provide for public participation and feedback. I will bring forward a facilitated process to assess each of these departments over the next year and a half, and provide recommendations to the City Council.

This budget process offered a great opportunity to rethink how we do business as an organization and to make adjustments to better achieve our goals.

The 2019 budget is aligned with the priorities that we have consistently heard from our community: public safety, economic development and community engagement.

Protecting public safety

In police and fire, Chief Templeman and Chief DeMarco have worked with their command teams to restructure and reduce their top-level positions, while adding more boots on the ground. We continue to actively recruit to fill vacancies in both departments, particularly in police, where we have seen a record number of retirements over the past two years.

Our fire department has been actively working for the past several years to respond to the changing needs of our community efficiently and effectively. I look forward to working with Chief DeMarco and his new leadership team to ensure that we can continue to provide the highest level of service to our residents and community.

Our police team, too, has shown incredible leadership in adapting and directing resources to keep our community safe. This year we have focused on reducing youth and gun violence, especially gang-related activity. As I have shared previously, we recently established a new gang response unit and I am optimistic about the initial results that we have seen from our efforts this year.

We are also expanding engagement between the police department and our community. This month we announced the 10 individuals who will serve as our inaugural Chief's Community Advisory Board and provide valuable insight to Chief Templeman and the department.

Investing in economic development and community engagement

My 2019 budget also includes a realignment of City teams around the key priorities of economic development, including marketing and tourism, and community development and engagement.

New businesses, new construction, and new visitors all represent new revenue for Everett. We have heard for many years that Everett is "this close" to realizing our full potential; we must invest in economic development priorities in order to achieve that growth.

In May we hired Dan Eernisse as our new economic development director, and in August we established an economic development advisory committee of diverse business leaders. They are already providing valuable guidance to our City team.

We are working with our local and regional partners on initiatives that will drive our economy, including supporting Boeing's future growth in our city and leveraging commercial air service out of Paine Field. We are also working with potential investors to revitalize key properties throughout the city.

There are outstanding developments already underway, from Waterfront Place to Funko's expansion downtown to the exciting new vision for the commercial center at the Riverfront. In November, the economic development team will come before the Council to share our strategic plan to build on that momentum and bring new investments and opportunities to Everett.

With Council's approval of the Metro Everett plan in August, we expect to see much of that growth take place downtown. The plan streamlines the path for investment in our urban center, and we'll bring forward a series of related developer incentives in the coming weeks. Thank you again to our planning team, the Planning Commission and the City Council for the years of work that helped shape the innovative Metro Everett plan.

Finally, we are committed to transparency and engaging with our community. As Everett continues to grow and change, our residents and businesses must be at the table. Strong community networks will help create the kind of city that we all want.

The new community development team, which will work closely with our planning and economic development teams, brings together similar functions from throughout the City, and will provide new ways for our community members to become engaged with each other and the City.

Next year we will also launch an online open data platform to provide even greater access to City information.

The organizational changes we've made better align our teams around key community priorities, and will allow us to be more transparent with how we're spending the resources that have been entrusted to us.

Looking ahead

As we near the end of 2018 and my first year in this office, I am excited about what the coming year holds for Everett.

We are currently conducting national searches for two important director positions in Public Works and Human Resources, and I look forward to working with those teams to provide even better service to our community and our employees.

This fall we'll continue our work to identify the best location for the Public Works service center. However, we know the service center is not the only City building in need of attention. As Executive Director Paul Kafanski moves into his new role overseeing our transportation and infrastructure departments, we will begin work to identify and prioritize future upgrades to our facilities to keep our employees safe and provide the highest-level of customer service to our community.

As I close, I'd like to recognize our incredible City team once more. I've had the chance to meet with nearly every one of our employees this year, and I have been blown away by their expertise and their dedication to this community. It's truly a privilege to lead this organization.

I also want to again thank the Council for your leadership and for your significant involvement in the budget process this year. I'd especially like to thank the members of the Budget Committee – Scott Murphy, Brenda Stonecipher, and Jeff Moore – who worked so closely with our finance team for the past several months.

This has been a valuable process, and I am pleased tonight that we have achieved a balanced budget that protects the core services and quality of life that our community expects. We have an incredible foundation as we head into 2019, and I am looking forward to all that we'll accomplish together in the coming year.

Thank you.



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2019 BUDGET OVERVIEW

This budget section is preceded by the Mayor's Message, which is delivered to the City Council at the first budget hearing. The Mayor's Message is intended to be read in concert with this overview section.

2019 Financial Overview

Total City

The City's Operating Budget is comprised of 57 separate funds, each with a unique purpose. The budget funds day-to-day expenditures for a variety of services. Among these are police and fire protection, water and sewer services, transit, street maintenance, parks and the library, debt service, and support services. These basic services are funded by user fees, taxes, permits, grants, state-shared revenues and other charges. The budget can vary greatly from year to year depending on construction projects and equipment replacement schedules. As summarized below, the total City expenditure budget, excluding ending fund balances, increased by \$60.2 million between 2018 and 2019.

<u>Expenditure Budget</u>	<u>Adopted 2018</u>	<u>Adopted 2019</u>	<u>% Increase (Decrease)</u>
General Government	\$ 135,702,279	\$ 138,369,767	2.0%
Special Revenue Funds	37,399,892	39,973,129	6.9%
Debt Service	3,140,165	3,305,537	5.3%
Enterprise Funds	143,618,561	193,965,490	35.1%
Internal Service Funds	37,088,444	41,306,717	11.4%
Police & Fire Pension Funds	<u>3,901,669</u>	<u>4,119,000</u>	<u>5.6%</u>
Total Expenditure Budget	\$ 360,851,010	\$ 421,039,640	16.7%

The total City revenue budget increased \$62.5 million, excluding beginning fund balances, from \$343.9 million in 2018 to \$406.4 million in 2019. The City's ending fund balance is budgeted to increase by \$6.2 million from \$191.7 million in 2018 to \$197.9 million in 2019.

Details on the revenue, expenditure, and fund balance changes for various funds can be found in the Financial Summary section of the budget.

General Government

The General Government is a subset of the total City budget that consists of Funds 001 through 120. For a broader description of the public services provide, please see the General Government Funds section of this document.

The City's Five-Year Outlook functions as a key tool in the general government budget development process. As the budget develops, all changes are processed through the model to forecast the five-year impacts. The City maintains a fund balance policy that limits operating expenses to operating revenues and targets the General Government Fund balance at 20% of operating revenues.

At the beginning of the budget process, the model projected an \$11.3 million operating deficit for 2019. Subsequent revisions to the revenue forecast and expenditure budget eliminated the projected deficit, bringing 2019 operating expenditures in line with operating revenues.

The primary guidelines for the annual budget development were:

- Adhere to sound fiscal management practices

- Maintain, to the extent possible, the current level of public services

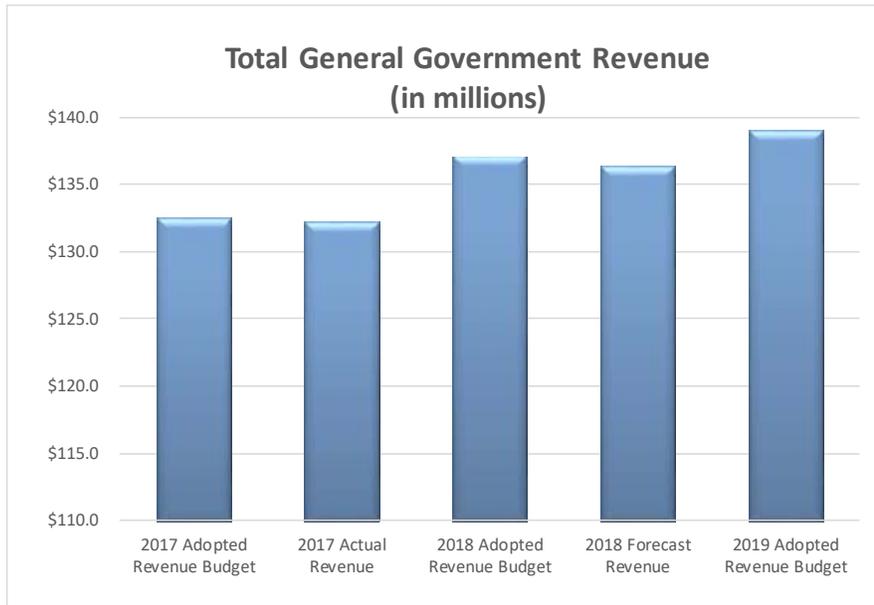
Key challenges facing the City for budget year 2019 included:

- Property tax growth limited to 1% of the base, plus adjustments for new construction and annexations
- Limited available funding for much-needed capital projects and technology, many of which were deferred during the recession
- Increasing jail fees
- Rising labor costs due to union concessions and new state laws related to minimum wage, sick leave, and the new paid family medical leave program

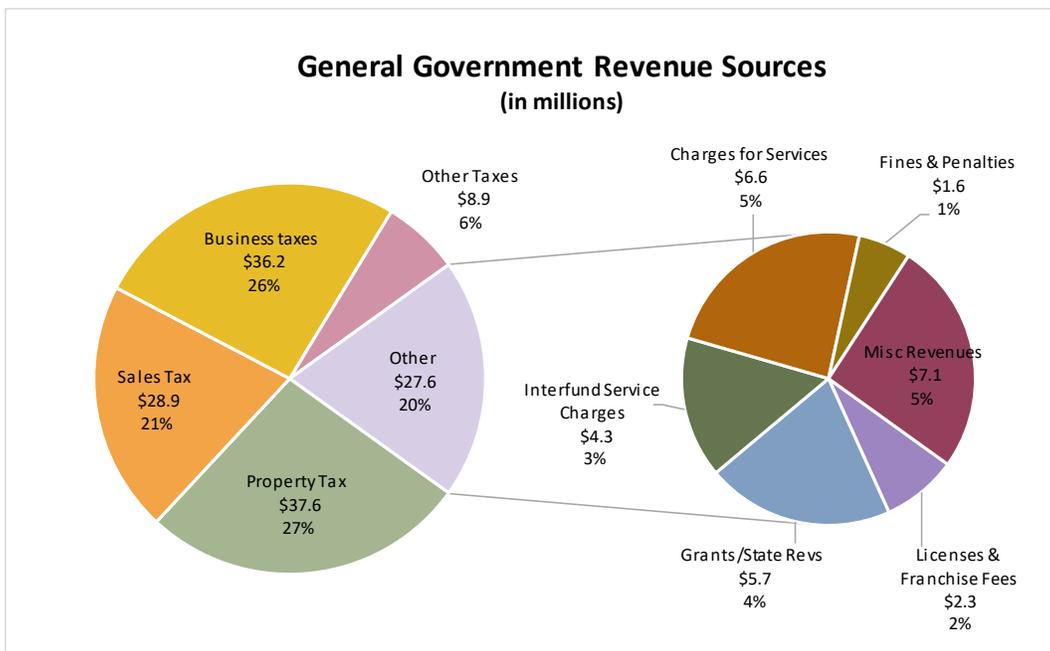
Major changes to the 2019 budget are listed below.

2019 General Government Budget Balancing	
2019 Estimated Annual Deficit as of 12/07/17	\$ (11,339,562)
Revenue adjustments (new revenues and forecast changes):	
Implement police alarm registration and false alarm fees	200,000
Establish fees for Fire Marshal building plan exam and inspections	200,000
Establish admin fee for private use of off duty police officers	136,000
Raise parking fines from \$20 to \$40	125,000
Raise gambling tax rate to maximum rate of 5%	60,000
Establish fee for meeting room use at all City facilities	45,000
Decrease Property tax	(138,467)
Increase Sales tax	799,168
Decrease B&O tax	(557,534)
Decrease Utility taxes (natural gas, telephone, electric, cable, garbage)	(520,866)
Increase Construction Permits (building, electrical, etc.)	237,561
Increase Other Service Fees (recreation, engineering, planning, etc.)	1,151,719
Increase Payments in Lieu of Tax from Utilities and Transit	850,434
Net all other revenue adjustments	80,655
Labor adjustments:	
Reduce budgeted General Govt. FTEs	2,214,414
Increase COLA, step, longevity, overtime, and seasonal assumptions	(98,764)
Increase Benefit cost assumptions (medical, dental, vision, retirement)	(152,425)
Increase slow roll assumption	503,988
Reduce LEOFF 1 Police & Fire pension contributions	111,002
Expenditure adjustments other than labor:	
Suspend General Fund contribution to street overlay program for one year	1,575,359
Eliminate set aside for additional Public Facilities District support	250,000
Eliminate across-the-board 2% M&O increase	172,162
Decrease Self-Insurance reserve contribution	592,285
Increase jail fees for video court service	(70,000)
Decrease SNO911 annual assessment	141,933
Decrease Information Technology reserve contribution	127,204
Eliminate 2019 Rainy Day fund contribution	140,000
Fund Parks small capital projects from CIP3	300,000
Fund annual forest management program from CIP3	62,000
Department reductions in response to Mayoral directive	800,863
Net all other expenditure changes	300,871
Prefund 2019 expenditures using 2017 carry forward	
General Government's insurance reserves	1,000,000
Motor Vehicle Department reserve contribution	800,000
Facilities reserve contribution	500,000
Increase Fund Balance to meet 20% requirement	(600,000)
Total Budget Changes:	\$ 11,339,562
Revised Annual Balance	\$ -

The 2019 general government revenue budget, excluding beginning fund balance, is \$139 million - a 1.98% increase over the 2018 year-end forecast based on the City's general economic outlook. As presented in the balancing list on the previous page, several new fees are budgeted to begin in 2019 including an alarm registration and false alarm fee, an administrative fee for private use of off duty police officers, and a fee for Fire Marshal building plan exams and inspections. In addition, parking fines were increased from \$20.00 to \$40.00 and the gambling tax rate for bingo, raffles, and pull-tabs was increased to the maximum allowed by state law (5%).



Everett strives to maintain a diverse and stable revenue base to shelter public services from short-term fluctuations in any one revenue source. Current economic development activities are helping to move the City toward a more balanced revenue base. The graph below depicts the composition of the general government's 2019 budgeted revenue sources.



Special Revenue Funds

The City has 17 Special Revenue Funds, which account for the proceeds of revenue sources that are restricted for specific expenditure purposes. These funds are related to General Government operations. Budget details can be found in the Special Revenue section of this document. Items of note include:

- Hotel/Motel tax fund revenues are budgeted to increase \$90,000 over the 2018 budget due to increased overnight stays and a new hotel coming online. The fund will make \$900,000 in grants and allocations available to support and promote tourism within the City, which is a \$175,000 increase over 2017.
- The Emergency Medical Services (EMS) fund began receiving Ground Emergency Medical Transportation (GEMT) program payments, which provide supplemental payments to cover the funding gap between a provider's actual costs per transport and the allowable amount received from Medicaid and other sources of reimbursement. The department changed its daily staffing model in 2018 and will add an additional daily aid unit to support the changes in 2019.
- The Criminal Justice Fund incorporated the First Responder Flex Fund and the Youth Outreach Fund. The First Responder Flex Fund was created to account for charitable donations to be used to assist poor and infirm individuals who are working with the Community and Enforcement Team. The Youth Outreach Fund was created to support the Mayor's Youth, Gun Violence and Gang Reduction directive.
- The Traffic Mitigation Fund is budgeted to have \$8.0 million available to support transportation projects in 2019.

Enterprise Funds

The City has seven enterprise funds that are mainly self-supporting and expected to operate like private businesses. Items of note include:

Utilities (Water, Sewer and Surface Water Management): Overall, 2019 service revenues are projected to increase by 11% over the 2018 budget. City Council approved a four-year Utilities Rate Ordinance in February 2017. This increase reflects the effect of those authorized rate increases.

Utilities estimates that expenses will increase by \$44.7 million in 2019. This increase includes a budgeted \$45.0 million bond issue as well as a \$1.0 million increase to labor and benefits, a \$2.0 million increase for outside services, a nearly \$0.7 million increase in interfund service charges, and a decrease of \$3.3 million in debt service. The 2019 Budget includes the reallocation of a portion of an Office Technician from the Streets Fund 120 to the Utilities Public Information work group resulting in an FTE increase of 0.10.

The Utilities Department strives to preserve essential services for its customers and maintain regulatory compliance, while minimizing the cost of service.

Transit Fund: Everett Transit continues to operate with a narrow revenue-to-expense margin. With upcoming service and fare changes, we expect to stabilize operating costs at a level that will be sustainable in the long term.

In 2019, we expect to complete several projects that are grant funded either in total or with a 20% match. The North Broadway improvements will be complete by summer through a fully funded grant from Washington State at a cost of \$3 million. We are planning an expansion of an existing parking lot at Everett Station. A grant for \$500,000 is expected to pay about fifty percent of the cost of construction.

Everett Transit continues to improve our fleet of fixed route and paratransit vehicles. We will be purchasing three new electric busses and 18 paratransit vehicles in 2019. Most of the \$5.5 million cost for new vehicles will come from federal and state grants.

Transit coordinates services with sister agencies to facilitate regional travel for the residents of its service area, including support of the bus rapid transit (SWIFT) service along Evergreen Way within the City limits as well as the seamless fare service provided by One Regional Card for All (ORCA). Within the ORCA system, special pricing plans are available to employers, schools, and social service agencies to encourage commute trip reduction and improve the environmental footprint of the City.

Golf Fund: A primary indicator of golf course financial performance is the difference between total revenue per round of golf and total expense per round of golf. Since 2008, the first full year of operations by Premier (a third-party contractor), revenue per round has increased from \$28.45 to a budgeted \$37.50 for 2019--an increase of 31.81%. The 2019 budget projects approximately 111,576 total rounds and \$4.18 million in revenue. The expense per round has increased from \$30.92 in 2008 to a budgeted \$39.19 in 2019--an increase of 26.75%. Total expense is budgeted at approximately \$4.37 million for 2019.

Though revenue and expense growth have tracked in terms of percentage changes, expense growth increases in the last 10 years have reflected three primary cost drivers. They have been (and continue to be) the repayment of debt principal for loans secured 20 years ago to remodel Legion Memorial Golf Course, a ramping up of funds devoted to the replacement of capital equipment to maintain the courses, and continued increases in labor costs associated with wage and benefit growth for City employees. These increases have offset revenue increases generated from higher green fees. Compounding this situation has been the national and local decline of golf as a participant sport. The three-year moving average of total rounds played at Everett's courses peaked in the 2008-2010 time period when approximately 129,000 rounds were played. For the latest three-year period available (2015-2017), the average number of rounds was 109,492, a decline of 15.12%.

The adopted 2019 budget spends about \$189,122 of reserves. With forecasted expenses through 2022 exceeding forecasted revenue, staff will undertake a review of revenue growth and continue to seek additional cost containment strategies with the goal of becoming a sustainable financial operation. Some of these strategies could begin to be incorporated during the 2019 budget year. Others may be required to be deferred until 2020 or beyond.

Capital Expenditures

The total budgeted capital expenditures by major category for 2019 are listed below. Further detail can be found in the Capital Improvement Program section of this document.

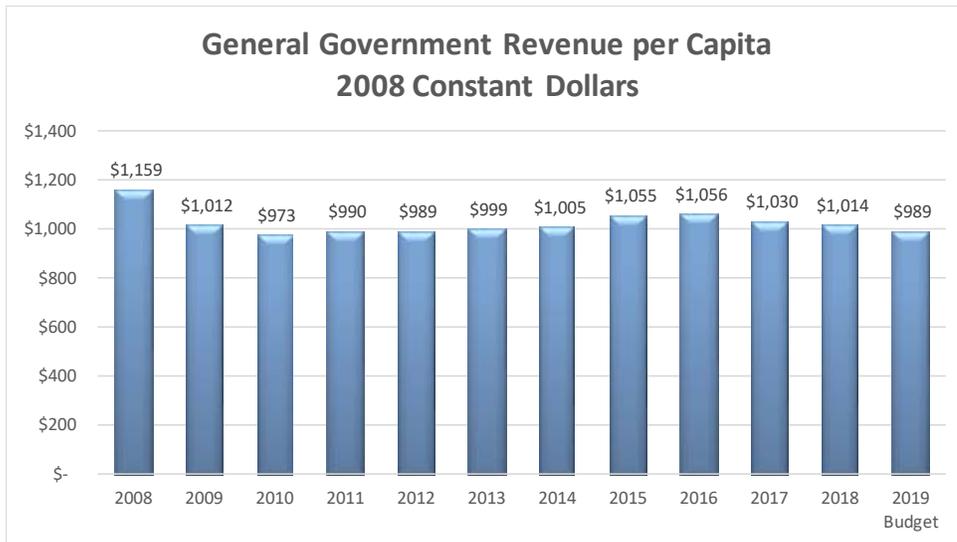
2019 Budgeted Capital Expenditures

Category	Included in Operating Budget	Included in Capital Budget	Total	Percent of Total
General Government	\$ 8,362,230	\$ 2,262,030	\$ 10,624,260	11.6%
Transit	10,925,071	-	10,925,071	11.9%
Parks & Recreation	422,223	790,358	1,212,581	1.3%
Transportation	4,899,600	15,143,145	20,042,745	21.8%
Utilities	2,795,500	46,143,667	48,939,167	53.3%
TOTAL	\$ 27,404,624	\$ 64,339,200	\$ 91,743,824	

Economic Environment

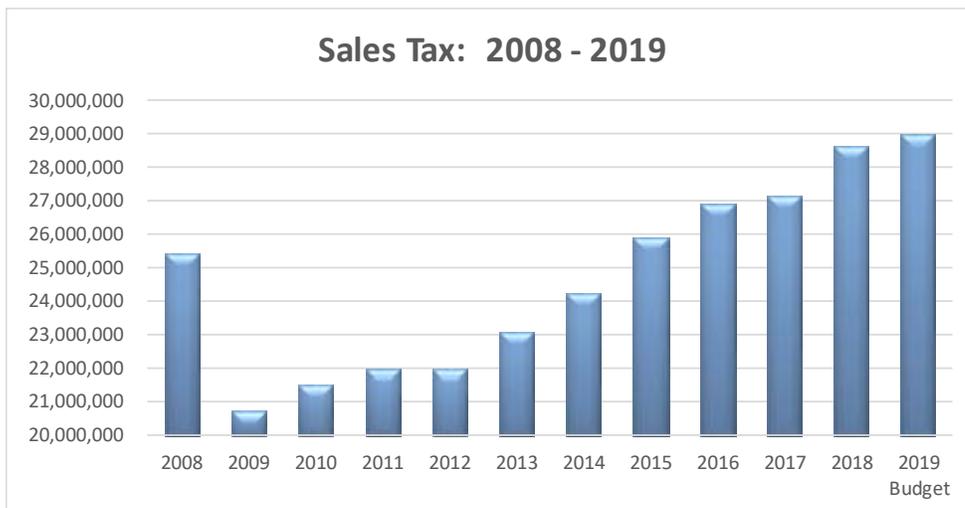
Over the past few years, Everett has benefited from growth in construction and aerospace activity. The Recession hit Everett’s economy hard, and it was not until 2015 that the City’s income, at least on a nominal basis, finally exceeded pre-recession levels.

While the recent improvement in general government revenue is encouraging, there is more to consider when thinking about funding public services. If we translate the revenues to constant dollars so that the impact of inflation is removed and present the results in a per capita format, the result shows that we still have substantially fewer resources available to serve our growing community. General government revenue per capita in constant dollars is shown in the following table. Adjusted for inflation and population growth, we see that, excluding 2008, real general government revenues peaked in 2016 and have been on a decline through the forecast for 2019.



The City’s three largest sources of tax revenue are property tax, sales tax, and business & occupation tax. Property taxes are limited to 1% annual growth in Washington State. Because the City’s regular levy rate is well under the legal limit, declining property values have not affected property tax revenues.

The City began to see noticeable declines in sales tax in mid-2008 and then drop off severely in 2009. The trend began to turn around in April 2010, and then, after a slight pullback in 2012, continued to increase every year through 2018. Sales tax revenues are expected to grow by 1.2% in 2019 over the 2018 year-end estimate and continue at an average 1.2% over the next four years.



Looking at sales tax by industry sector, we see that all categories saw positive growth in 2018. The first table below breaks sales tax out into the major categories and presents the change in activity between 2017 and 2018. The largest gain, both in terms of percentage and dollars, was in the Manufacturing category. The smallest gain, in terms of percentage change, was in the Retail category.

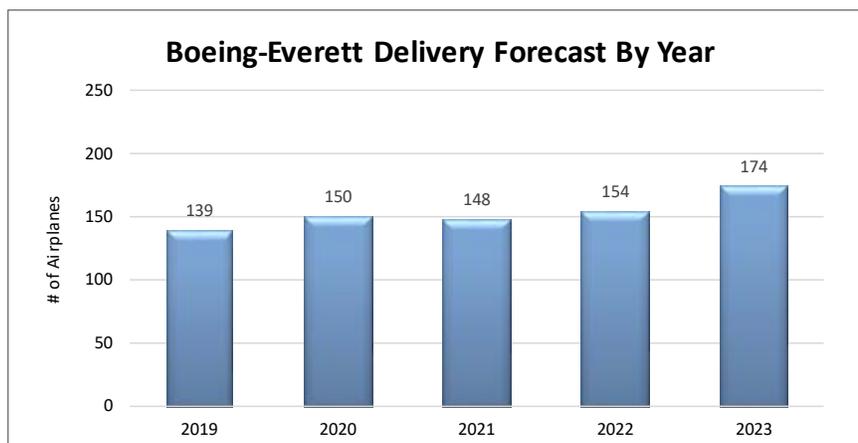
The Retail category is the City’s largest sales tax subset. The second table breaks out the Retail category into subcategories. As shown, the Miscellaneous Retailers category had the strongest year over year growth. We believe this is where many of the new Marketplace Fairness Act payers are reporting. The Electronics and Appliances category also showed notable growth at 11%.

Motor Vehicles, the City’s largest retail sales tax subcategory, posted a 3.1% or \$137,000 decline in 2018. This was in line with state level activity. We expect motor vehicles sales to pick up slightly in 2019.

Total Sales Tax Revenue		
Category:	Category as % of Total Receipts	% Change 2017-2018
Retail	43.2%	1.5%
Construction	12.1%	2.3%
Food Services/Accomod.	9.6%	4.7%
Manufacturing	8.5%	15.0%
Wholesale	6.3%	2.2%
Information	4.6%	10.9%
All Other Categories	15.7%	9.8%
Total Sales Tax	100.0%	4.6%

Retail Sales Only		
Category:	Category as % of Total Receipts	% Change 2017-2018
Areas of Strength		
Misc Retailers	8.5%	39.2%
Electronics & Appliances	5.4%	11.0%
Clothing & Accessories	4.6%	8.1%
Sporting Goods	3.2%	7.3%
Food & Beverage Stores	5.2%	3.9%
Building/Garden	5.7%	0.2%
Gas Stations	2.4%	0.2%
Areas of Weakness		
Nonstore Retailers	3.0%	-22.7%
Furniture & Home Furnishings	2.8%	-3.9%
Motor Vehicles	35.2%	-3.1%
Health/Personal Care	4.2%	-2.1%
General Merchandise	19.7%	-0.2%
Total Retail Sales Tax		1.5%

The City’s 2018 business and occupation tax, which is based on gross business receipts, came in 2.65% below 2017 receipts. This was our third year of declining receipts. Looking forward, B&O tax is expected to increase in 2019 by 1.1% over the 2018 estimate based on anticipated construction and aerospace activity, and additional focus on compliance. We anticipate growth in 2020 to be about 0.50%, with future years growing at around 1.5% as aerospace activity levels off.



In 2013, Boeing initiated a nation-wide competition to select a site to build the new 777x. In response, the legislature voted in a tax incentive package and the Machinists Union approved an eight-year contract to posi-

tion Washington State as the preferred location. Based on those actions, Boeing selected the Puget Sound as the preferred site for the 777x as well as its new composite wing facility, securing the presence of the aerospace industry and thousands of family wage jobs in this area for many years to come. The first 777x is scheduled to roll out for test flights in early 2019. Everett is currently in competition for Boeing’s next generation plane, the proposed “New MidMarket Airplane (NMA).”

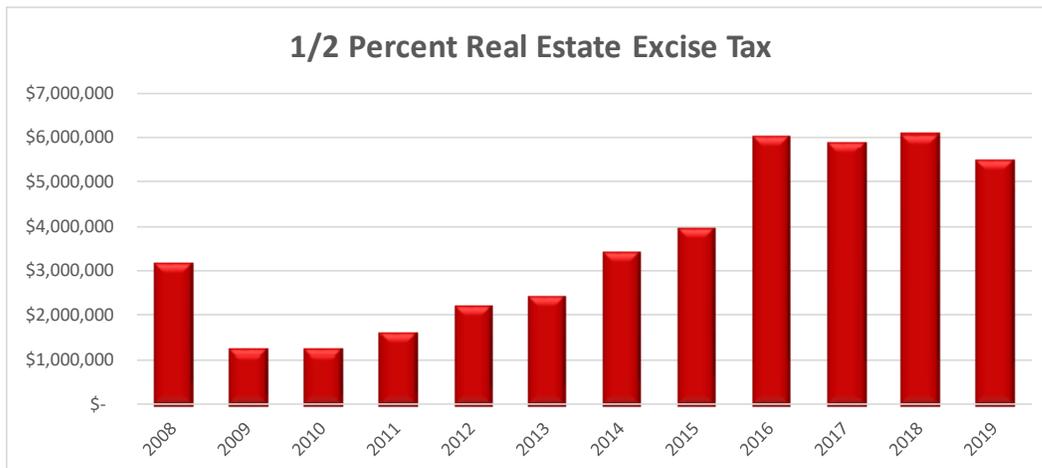
The number of construction permits issued between 2017 and 2018 declined by 3.6%; however, the results among construction types were mixed in terms of value, with an overall net increase of \$9.5 million or 5.1%.

City of Everett Local Housing Industry Indicators			
	<u>2017</u>	<u>2018</u>	<u>Change</u>
City of Everett Construction:			
Single Family Permits	254	113	-55.5%
Single Family Valuation	\$ 59,704,827	\$ 24,208,466	-59.5%
Duplex Permits (Units)	16	22	37.5%
Duplex Valuations	\$ 3,301,394	\$ 3,504,244	6.1%
Multi-Family Permits (Units)	11	118	972.7%
Multi-Family Valuations	\$ 476,640	\$ 11,241,008	2258.4%
Commercial Permits	2	16	700.0%
Commercial Valuations	\$ 49,587,747	\$ 61,760,041	24.5%
Residential Alterations	332	331	-0.3%
Residential Alterations Valuation	\$ 8,864,990	\$ 9,928,559	12.0%
Commercial Alterations	310	292	-5.8%
Commercial Alterations Valuation	\$ 67,254,523	\$ 88,113,091	31.0%

Sources: City of Everett Engineering Department

Monthly real estate excise tax (REET) receipts (0.5% of the value of real estate transactions) represent a vital funding source for park and road projects and debt service payments on the Everett Events Center. The following chart illustrates the impact of the Great Recession on REET revenues. Everett experienced a precipitous drop in 2008 that was followed by an additional large decline in 2009.

Collections began improving in 2011 and have continued to be strong through 2018, with revenues coming in 22% higher than originally budgeted. Based on indications that the housing market is softening, 2019 collections are budgeted to decline by 11% from the 2018 year-end forecast.



City of Everett - Priorities and Current Initiatives

The City of Everett's current initiatives focus on keeping our City services strong while preparing for future opportunities.

1. Foundation of a Great Community

- Financial Health

The City continues to live within its means and is maintaining compliance with the fund balance policy. In the spring of 2018, the City undertook a second review of City businesses in an effort to bring our finances into structural balance for the long term. Several suggestions were developed and a number of them were implemented. This is an ongoing effort with work continuing into 2019.

Everett's general obligation and revenue debt ratings were reaffirmed by Standard & Poor's at AA+ in October 2018 and October 2016, respectively. This strong rating means Everett taxpayers likely will pay lower interest rates on bonds issued for capital improvements than they would have if the City held a lower credit rating.

The 2019 budget maintains the City's essential service levels; however, Administration continues to watch the changing dynamics of the economy and is prepared to make adjustments as necessary.

- Public Safety

Public Safety continues to be the number one priority in the City of Everett. Like cities across the state and country, in recent years the City's public safety efforts have focused on street-level social issues like homelessness, addiction, and mental illness. The City has taken a comprehensive approach to solving these issues.

In 2018, the City continued work on the Safe Streets Plan--the City's response to the recommendations of the Community Streets Initiative Task force convened in 2014. The plan focuses on proven approaches to housing, enforcement and outreach, and diversion programs to create pathways for those on the street and to ensure the safety of our entire community.

In 2018, we continued the work crew program that provides an alternative to prosecution and jail-time for low-level offenders and to clean up areas affected by street populations. The program also provides skills training and connections to services and treatment.

All of these programs will continue into 2019 and may be modified as our knowledge base expands. In addition, we expect that in July of 2019 Catholic Community Services will open its new, permanent supportive housing apartments with on-site services and case management for 70 chronically homeless individuals, many of whom struggle extensively with mental illness and addiction. The City, Snohomish County, and Providence Hospital have committed to provide ongoing support for this new facility.

- Transportation

The City will make a \$20 million investment in streets in 2019. Projects include the Grand Avenue Park pedestrian bridge, which will connect the Grand Avenue Park bluff with our waterfront, an investment in a parking management system for the EverPark garage along with structural repairs, and the Downtown Streetscape Phase 3 project, which is part of our continued efforts to improve the walkability of our neighborhoods.

- Water/Sewer Utilities

Over the next decade, the City will spend more than \$500 million to improve drinking water and wastewater systems to meet growth demands and regulatory requirements. The City provides drinking water to approximately 600,000 people in Everett and Snohomish County, and sewer service to more than 140,000 people in Everett and adjacent areas.

2. Investment and Redevelopment

- Large projects in the planning stages or underway in Everett include:

The Everett Community College expansion, which will conclude with a doubling of the campus size.

The residential development in the Riverfront - more than 200 homes have been completed with additional mixed-use and commercial construction to come.

The Port of Everett's Waterfront Place development.

- Economic Development Focus

The fundamentals for a strong and increasingly diverse economy exist in Everett, including aerospace, Naval Station Everett, the health care community, the Port of Everett, and the SW Everett light industrial area.

Work to redevelop the old Kimberly-Clark waterfront property continues and is a critical piece of our effort to recreate the jobs that were lost when the mill closed in 2012.

- Higher Education

Washington State University (WSU) Everett is a student- and community-centered option for higher education that brings industry-aligned undergraduate programs with an interdisciplinary focus to the North Puget Sound region to prepare students to compete globally in the local economy. WSU Everett offers a wide range of four-year and advanced degrees including electrical engineering, communications, hospitality, software engineering, and data analytics.

Everett will also benefit from the new WSU medical school, which will train doctors at Everett health care facilities to serve rural populations. Current affiliate partners in Everett are the Everett Clinic, Providence Regional Medical Center, and Sea Mar. These partners will provide unique clinical experiences for medical students, which will be assigned to one of the four campus locations upon admission.

Everett Community College (EvCC) has also expanded to incorporate more than 950,000 square feet of built space on the main 23-acre campus and six off-campus sites. College facilities will continue to evolve and improve to accommodate anticipated future EvCC enrollment growth through 2035 and beyond, to expand opportunities for learning, teaching and academic excellence.

- Commercial Air at Paine Field

Commercial air activity was approved for Paine Field in 2016. This amenity will be a benefit to business commuters and vacationers alike. Construction of the new airport terminal will be complete in early 2019 with the airport open for passengers soon thereafter.

- Navy

Naval Station Everett (NSE) is the homeport for six US destroyers. Each carries a complement of more than 300 sailors. Everett is a key strategic location for the Navy and we continue to work with our congressional delegation to ensure that Naval Station Everett remains a valued asset for our country and our region.

3. Improving our Quality of Life

- Parks and Libraries

The redevelopment of the Phil Johnson Ballfields will begin in 2019, along with new playground equipment at Forest Park, plus several other park improvement projects.

The south Everett library branch expansion began in 2018. The expansion will add 5,000 square feet to the branch, including new spaces for meeting, studying, and children's activities.

- **Community Events**

The City will continue popular community events such as Sorticulture, Music in the Parks, Jetty Island Days, and Cinema Under the Stars.

The City will also continue to support new and established artists and musicians through grants and annual arts awards.

Other Planning Processes

In addition to the five-year forecast budget model, the capital improvement plan, and the economic development plan, the City of Everett has numerous boards, commissions, and committees that play a role in helping plan for the City's future. These include, but are not limited to: Animal Control Board, Council of Neighborhoods, Cultural Commission, Historical Commission, Housing & Community Development Board, Housing Authority, Human Needs Advisory Committee, Library Board, Lodging Tax Advisory Board, Parks Commission, Planning Commission, Public Facilities District Board, Salary Commission, Senior Center Advisory Board, Transportation Advisory Committee, Tree Committee, Neighborhood Associations and various ad hoc committees. These groups serve in an advisory capacity to the City, and were created either by code or assignment.

In 2017, a group of 22 community volunteers completed an update to the Vision 2025 report that was initially developed in 2005. The committee reviewed goals that have been achieved, identified what remains to be done, and established new action strategies that the City could pursue in a report delivered to Administration and City Council called Vision 2037. This plan will help to guide the City's direction for the future.

The Future – Principal Issues Facing the City

There are a number of issues facing the City of Everett that present significant challenges or opportunities as we look to future years. These include legislative changes, regulatory changes, world events, and economic factors. Examples include:

Public Disclosure

The volume of records requests and associated cost of compliance with the State of Washington's Open Public Records Act continues to place an enormous strain on City resources. Responding to records requests and managing associated legal issues has required the City to increase staffing levels and reallocate resources from other essential public services.

Property Tax 1% limit

Initiative 747, which limits growth in property tax revenue to 1% per year, presents an ongoing budgetary challenge. Property tax is the largest single source of general government revenue—accounting for about one third. With growth in this key component held to a rate lower than the cost of service delivery, the City must increasingly rely on other more volatile sources of income to maintain service levels. As a result, the structural deficit will persist and future economic downturns will likely require difficult decisions regarding necessary service cuts.

B&O Tax Credit

In March 2010, the City amended the Business and Occupation tax ordinance by adding a tax credit for business employment base expansions that create 50 or more new jobs within four quarters. The taxpayer may claim a credit of one thousand dollars per new position, subject to a lifetime cap of \$500,000 per taxpayer. The added positions must remain filled for at least three years.

State of Washington/U.S. Government

The City receives various state-shared revenues, including Criminal Justice Assistance, Liquor Revolving Account, Liquor Excise Tax Account, and Motor Vehicle Fuel Tax; and various public safety operating program

and capital grants. The state's budget constraints have resulted in reduced revenue sharing and fewer available grants for 2019.

The U.S government also provides grant funding for City programs, primarily in the areas of road construction, transit, and Community Housing Improvement Program (CHIP) funding. Like the state, the federal government has also cut back the number and size of grants it makes available to local jurisdictions.

Together, the reduction in state shared revenues and state and federal grants will force the City to rely more heavily on already strained local revenues to support operations and capital investments.