City of Sammamish Washington

Memorandum

Date: **June 27, 2017**

To: **City Council and Lyman Howard, City Manager**

From: **Aaron Antin, Finance & IT Services Director** AA

Re: **Financial Retreat Background Information**

Summary Statement:

The following attached information has been requested at various times over the past five months and is being put together in one place and included as background information for the City Council's upcoming Financial Retreat.

The packet includes the following items:

1. Property Tax overview from the Municipal Research Services Association (MRSC) – (Pages 1-6) and includes general levy, limits, calculation overview and banked capacity descriptions.
2. King County Assessor's Office Levy Limit Worksheet reflecting the most recent final property tax assessment information for 2017 - (Pages 7-8)
3. Property Tax banked capacity historical calculations from 201 – 2017 – (Page 9)
4. Utility Tax overview from MRSC (Page 10-11)
5. Summary survey of utility taxes imposed by municipalities of King County in 2014 (Page 12).
6. Response to a Councilmember question on Real Estate Excise Tax (REET) related to how much can be used for maintenance per State RCW – (Page 13)
7. Transportation Benefit Districts overview from MRSC (Page 14-18)
8. Overview of long term debt capacity and capacity calculations – (Page 19)
9. Response to Finance Committee request to estimate what $1.2 Million in debt service would cover in terms of bond amount – (Page 20)
10. Summary of Citizen Roundtable Comments on 4-27-17 (Page 21)

Hard copies of this memo and attachments will be placed in the City Council's in-boxes at City Hall as well as an electronic copy emailed to them by the close of business today.

Although this is not new information, it would be helpful if City Council can review these items prior to Thursday's meeting to help make our time together more efficient.

MRSC
Local Government Success

Property Tax in Washington State

The Washington State property tax is one of the most complicated in the nation. This page provides a general overview of property tax levy rates, limitations, and banked capacity for Washington State local governments. For a more comprehensive explanation of the intricacies of the property tax in Washington State, refer to the Department of Revenue's Property Tax Levies Operations Manual.

Budget-Based Property Tax

Washington State has a budget-based system of property taxation. There are three main components to the property tax:

- Levy
- Assessed value (AV)
- Levy rate

As part of the budget process, the taxing jurisdiction establishes the amount of property tax revenue needed to fund the budget. That amount needed to fund the budget is called the levy. It is the total amount to be collected from the taxpayers by a taxing district.

By November 30 of each year, the amount of taxes to be levied by taxing districts are certified to the county assessor who computes the levy rate necessary to raise that amount of revenue. The county assessor calculates the levy rate necessary by dividing the total levy amount by the assessed value of taxable property in the district. By law, this number is expressed in terms of a dollar rate per $1,000 of valuation. For example, a rate of $0.00025 is expressed as 25¢ per $1,000 of assessed value. The formula for property tax collections is expressed as:

Levy = Levy Rate x Assessed Value (AV)

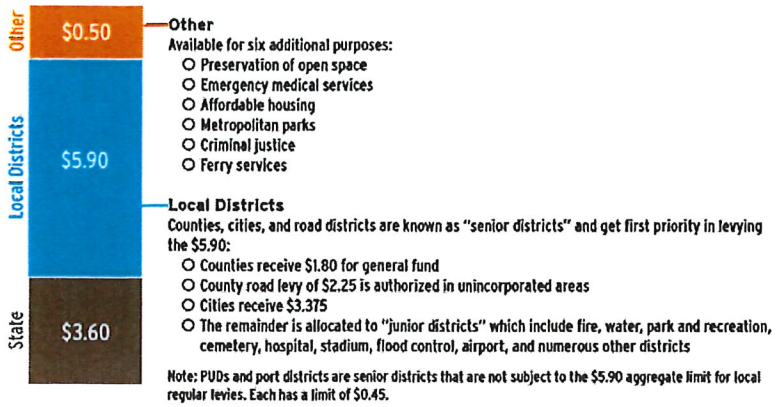
Property Tax Limits

The property tax levy is constrained by the overall limits on the regular levy rate and the limit on annual levy increases.

Regular Levy Rate Limits

The Washington State Constitution limits the annual rate of property taxes that may be imposed on an individual parcel of property to 1% of its true and fair value. Since tax rates are stated in terms of dollars per $1,000 of value, the 1% limit is the same as $10 per $1,000 and is often referred to as the $10 limit. Taxes imposed under this limit are termed "regular" levies, while those outside the limit are "excess" or "special" levies.

The following chart shows how the $10 limit is allocated. The aggregate limit for cities, counties and most special districts is $5.90 per $1,000 assessed value.



Special Considerations Relating to Levy Rate Limitations

What if the sum of the levy rates imposed by the various taxing authorities goes over the limit?

It's complicated. First, there are two limits:

- One is the 1% constitutional limit.
- The other is the $5.90 limit on cities, counties and junior taxing districts.

If either of those limits are exceeded, then the junior taxing district levies involved must be reduced through prorationing. See RCW 84.52.010.

Which levies are lowered in prorationing, by how much and in what order, depends upon whether the $5.90 limit or the 1% limit has been exceeded. The Department of Revenue Property Tax Levies Operations Manual and WAC 458-19-075 include step by step instructions for calculating prorationing. The Department of Revenue has developed Prorationing Worksheets for both the $5.90 Aggregate Limit (REV 64 0097) and the 1% Aggregate Limit (REV 64 0096) to help in making these calculations.

Can a county raise its regular general fund (current expense) levy rate above $1.80?

A county can raise its general fund levy rate up to $2.475 per $1,000 AV, provided the total of the levy rates for the general fund and road fund do not exceed $4.05 per $1,000 AV and the increase in the general fund levy does not result in a reduction in the levy of any other taxing district through prorationing. See RCW 84.52.043.

What if my city has a fireman's pension fund?

Some cities have a Firemen's Pension Fund. (If you do not know whether you have one, you probably do not.) Those cities can levy an additional $0.225 per $1,000 assessed valuation, resulting in a maximum levy of $3.60 per $1,000 assessed value. See RCW 41.16.060.

What if my city belongs to a fire and/or library district?

For cities that belong to a fire district and/or a library district, the rules are a little more complicated. Nominally they have a maximum rate of $3.60 per $1,000 assessed value. But, they can never collect that much because the levy of the special districts must be subtracted from that amount (RCW 27.12.390 and 52.04.081). The library district levy has a maximum rate of $0.50 per $1,000 assessed value (RCW 27.12.050) and the fire district levy can be as high as $1.50 (RCW 52.16.130, 52.16.140, and 52.16.160, each provide for a levy of $0.50 per $1,000 assessed value). Therefore, if a city belongs to both a fire district and a library district, and if these districts are currently levying their

maximum amount, then the local levy rate can be no higher than $1.60 ($3.60 - 1.50 - 0.50 = $1.60). (Note that the Department of Revenue has determined that if a city has a Firemen's Pension Fund and is also in a library and/or fire district, its maximum levy rate is $3.825 minus the levy rates of the districts.)

If, for some reason, one (or both) of the special districts is not currently levying the maximum amount, the city's current levy could be higher. Assume that the fire district is only levying $1.00 per $1,000 assessed value. The maximum city levy rate would be $3.60 - 1.00 - 0.50 = $2.10. But, if the fire district raises its levy rate in the future, then the city must reduce its levy rate by the same amount so that the total is never above $3.60. Such a forced reduction can cause fiscal problems if it is not anticipated. If no one in your city hall knows what rate the special districts are currently levying, your county assessor can help you.

Levy Increase Limit

In addition to the limit on the overall levy rate, there is a 1% limit on the amount an individual taxing district can increase the property tax levy, or the total amount of taxes that will be collected in a given year.

In Washington, property tax increases are not based on the increasing value of properties. They are based on last year's property tax levy, which is simply the amount of the property taxes that were assessed in the prior year. Each year's levy may be increased by no more than 1%, unless the public votes for a greater increase or the jurisdiction uses banked capacity. Consult the Washington State Department of Revenue's Resolution/Ordinance Procedures for Increasing Property Tax Revenue for the proper procedures for increasing the property tax levy.

Taxes on new construction, changes in value of state-assessed utility property, and newly annexed property (hereafter referred to as "add-ons") are exempt from the limit factor for taxing districts of any size and may be added to the tax levy that is requested under the limit factor. See RCW 84.55.010 and WAC 458-19-035.

Calculating the Property Tax Levy

The complexity of the property tax means that year to year changes in collected taxes may not be intuitive. Glenn Olson, former Deputy County Administrator of Clark County, developed the below examples of how property tax bills may change based on various factors.

Imagine a county that has only one parcel and one house that is brand new. This property is worth $100,000. As its only property, its value is also the entire assessed value of the county. Suppose further that the levy rate in that county is $2.00. That means this property owner must pay $2.00 for each $1,000 that his or her property is worth. In the first year after its construction, the taxes on that home would be calculated as follows:

Assessed value of the county in thousands ($100) x Levy rate (2.00) = Tax bill and Year 1 levy ($200.00)

The only time taxes are calculated this way is in the first year after a home is built – i.e. for new construction. In every following year it works differently. In year 2 the county may only increase its levy by 1%. So following our example:

Last year's levy ($200) + Additional 1% ($2.00) = Tax bill and Year 2 levy ($202.00)

Even if the value of this county's one home had increased by $100,000, to $200,000, its tax bill would still be $202.00. No matter how much the assessed value in the county increase, its levy may increase only 1%. So the county adjusts the levy rate to make it fit the new assessed value:

New levy amount ($202.00) ÷ New assessed value in thousands ($200) = New levy rate (1.01)

Any new homes that might be built in year 2 would be taxed at this new levy rate.

To see how increases can be greater than 1%, suppose our imaginary county had started with two new homes, but that each one was worth only $50,000. The assessed value would still total $100,000 in year 1.

With the same $2.00 levy rate, the levy in the first year would still be $200. But instead of one home paying the entire levy, the two equal-value homes would split the levy equally and pay $100 each. In year 2 the levy would still increase by only 1% to $202. And if the value of both homes together increased to $200,000, the levy rate would still drop to 1.01.

But suppose to get to that $200,000 value, one home tripled in value to $150,000 and the other stayed the same at $50,000. Then their respective tax bills would look like this:

	Home 1	Home 2	Total County	
Home AV in thousands:	$150	$50	$200	(Total County AV)
Times the levy rate:	x 1.01	x 1.01	x 1.01	
For a new tax bill of:	**$151.50**	**$50.50**	**$202.00**	(New Year 2 levy)

The total levy is still $202, but more of it is borne by the home that increased in value and less of it by the home that did not increase. Assessed value only determines a home's share of the levy. If all home values were to change by the same percentage, then each home's share of the levy would stay the same and everyone's taxes would increase by exactly 1%.

The above examples are extremely simple. In reality, one home is usually in several taxing districts that overlap. Voted levies, levy shifts, levy lid lifts may be in effect, or a jurisdiction may be tapping its "banked" capacity. And finally fees for numerous things from improvement districts to utilities may show up on a tax bill. These all affect what looks like our property tax bill. But at the core of our property tax system it is true that taxes may only increase by 1% per year unless local governments (1) tap banked capacity, or (2) seek voter approval through a levy lid lift or excess levy.

What is Banking Levy Capacity?

Some taxing districts have levied less than the maximum amount allowed over the years. RCW 84.55.092 allows these districts to retain the right to use that "banked" capacity at some future date. Thus when comparing a district's current year levy to their prior levy it may reflect a change of more than 1% if they are using their banked capacity or less than 1% if they don't feel they need the levy increase. Many districts have never used that capacity even though they could have done so at any time.

Here are two examples:

- Assume that for this year a city had the assessor set a tax rate that resulted in the same levy as last year plus add-ons. (It did not take the allowable 1% increase.) When doing the budget for next year, however, the city realizes that it needs more revenue from the property tax because sales tax receipts have fallen off. RCW 84.55.092 allows the city to ask the assessor to set a tax rate for next year that raises the levy by 1% and then 1% again 1.01 x 1.01 = 1.0201 for a compounded increase of over 2% (assuming that it does not put the city over the statutory levy rate limit.)

- Now, a more complicated case where a city actually lowers its tax rate. Assume that during the current year (2015), a city has experienced a revenue windfall and has more money than it needs to fund the 2016 budget. It could put the excess funds in a contingency fund or a "rainy day" fund, but the city council decides to give the taxpayers a break by lowering the property tax for 2016. During 2016 it receive no revenue windfall and it needs more property tax revenue for the year 2017 budget. RCW 84.55.092 allows it to levy the maximum amount that it could have levied in 2016, plus an additional 1% unless that puts the city over the maximum statutory rate. In 2016 it didn't use its maximum taxing capacity, but it didn't lose it because it can "bank" the extra capacity.

How do we bank capacity?

The statutory authority for banking capacity is provided in Chapter 84.55 RCW. The chapter provides procedures for two different classifications that are defined in RCW 84.55.005 as taxing districts with populations less than 10,000 and all others (meaning 10,000 or more in population).

Assuming that you have held your public hearing on revenue sources for the general fund as required by RCW 84.55.120 and the legislative body has determined that they do not need the entire 1% increase as allowed by law, you must adopt an ordinance or resolution specifically stating what if any the increase may be. This must be stated in terms of both dollars and percentage. Even if you are not increasing your property tax levy, you should adopt an ordinance/resolution saying that you are increasing your levy by $0.00 which is a 0% increase, this will bank the unused capacity of your levy.

Below are the most important procedures that jurisdictions must follow. The Department of Revenue provides detailed guidance on procedures related to increasing property tax revenue.

Taxing Districts with Populations Under 10,000

The taxing district must adopt an ordinance or resolution for increasing property tax revenue and levying a percentage increase less than 1% will automatically "bank" capacity. Without the resolution, the district cannot bank excess levying capacity.

Taxing Districts with Populations of 10,000 or More

If the implicit price deflator is greater than 1%, then the procedures are the same as those for populations less than 10,000, If the implicit price deflator is less than 1%, in addition to adopting an ordinance or resolution for increasing property tax revenues, the jurisdiction must also pass an ordinance or resolution making a finding of "future substantial need" (see example 2) in order to bank capacity.

Using Banked Capacity

While jurisdictions may bank capacity for later use, they are still limitations on its use based on the maximum allowable levy, which can be obtained from the assessor. Below is an example of the procedures for using banked capacity.

Assume that the maximum allowed levy amount is $110,000 for the levy you made in 2014 for 2015 and a city only levied $100,000 for 2015. When making a levy for 2016, the assessor will raise the maximum allowable levy by 1% to $111,100 ($110,000 x 1.01) exclusive of add-ons. If the city increases its current levy by 1%, it would be $101,000 ($100,000 x 1.01) plus add-ons, so it has $10,100 of banked capacity.

In this example, the city wants to increase the levy by $7,000. When you write you resolution/ordinance to satisfy the requirement for RCW 84.55.120, you put $7,000 in the blank that gives the dollar amount of the increase over the actual levy from the previous year – 2015 (excluding "add-ons") – representing a percentage increase of 7% ($7,000/100,000). $1,000 of the increase comes from your 1% annual limit. For the other $6,000, you have used banked capacity.

When you complete the levy certification form, you put in $107,000 plus the dollar amount of "add-ons" as the amount of the regular property tax levy in the levy certification form.

Related Resources

- Property Tax Levies Operations Manual, Washington State Department of Revenue, 2013
- Resolution/Ordinance Procedures for Increasing Property Tax Revenue, Washington State Department of Revenue, 2010

Last Modified: September 04, 2015

© 2015 MRSC of Washington. All rights reserved. Privacy & Terms.

LEVY LIMIT WORKSHEET – 2017 Tax Roll

TAXING DISTRICT: City of Sammamish

The following determination of your regular levy limit for 2017 property taxes is provided by the King County Assessor pursuant to RCW 84.55.100.

Annexed to Library District (Note 1) Estimated Library rate: 0.40118

Using Limit Factor For District	Calculation of Limit Factor Levy	Using Implicit Price Deflator
28,575,920	Levy basis for calculation: (2016 Limit Factor) (Note 2)	28,575,920
1.0100	x Limit Factor	**1.0095**
28,861,679	= Levy	28,848,249
285,524,717	Local new construction	285,524,717
0	+ Increase in utility value (Note 3)	0
285,524,717	= Total new construction	285,524,717
1.98559	x Last year's regular levy rate	1.98559
566,935	= New construction levy	566,935
29,428,614	Total Limit Factor Levy	**29,415,184**
	Annexation Levy	
0	Omitted assessment levy (Note 4)	**0**
29,428,614	Total Limit Factor Levy + new lid lifts	29,415,184
14,466,374,793	÷ Regular levy assessed value less annexations	14,466,374,793
2.03428	= Annexation rate (cannot exceed statutory maximum rate)	2.03335
20,976,300	x Annexation assessed value	20,976,300
42,672	**= Annexation Levy**	**42,652**
	Lid lifts, Refunds and Total	
0	+ First year lid lifts	0
29,428,614	+ Limit Factor Levy	29,415,184
29,471,286	= Total RCW 84.55 levy	**29,457,836**
24,452	+ Relevy for prior year refunds (Note 5)	24,452
29,495,738	= Total RCW 84.55 levy + refunds	29,482,288
	Levy Correction: Year of Error _____ (+or-)	
29,495,738	**ALLOWABLE LEVY (Note 6)**	29,482,288
	Increase Information (Note 7)	
2.03596	Levy rate based on allowable levy	2.03504
27,270,868	Last year's ACTUAL regular levy	27,270,868
1,590,811	Dollar increase over last year other than N/C – Annex	1,577,381
5.83%	Percent increase over last year other than N/C – Annex	5.78%
	Calculation of statutory levy	
PY Levy $27,270,868	Regular levy assessed value (Note 8)	14,487,351,093
New Const $566,935	x Maximum statutory rate	3.19882
Annex $42,672	**= Maximum statutory levy**	**46,342,428**
Relevy $24,452	+Omitted assessments levy	**0**
'17 Levy 27,904,927	=Maximum statutory levy	**46,342,428**
	Limit factor needed for statutory levy	Not usable

ALL YEARS SHOWN ON THIS FORM ARE THE YEARS IN WHICH THE TAX IS PAYABLE.
Please read carefully the notes on the reverse side.

Notes:

1) Rates for fire districts and the library district are estimated at the time this worksheet is produced. Fire district and library district rates affect the maximum allowable rate for cities annexed to them. These rates *will* change, mainly in response to the actual levy requests from the fire and library districts. Hence, affected cities may have a higher or lower allowable levy rate than is shown here when final levy rates are calculated.

2) This figure shows the maximum *allowable levy*, which may differ from any actual prior levy if a district has levied less than its maximum in prior years. The maximum allowable levy excludes any allowable refund levy if the maximum was based on a limit factor. The maximum allowable levy excludes omitted assessments if the maximum was determined by your district's statutory rate limit. If your district passed a limit factor ordinance in the year indicated, that limit factor would help determine the highest allowable levy. However, if the statutory rate limit was more restrictive than your stated limit factor, the statutory rate limit is controlling.

3) Any increase in value in state-assessed property is considered to be new construction value for purposes of calculating the respective limits. State-assessed property is property belonging to inter-county utility and transportation companies (telephone, railroad, airline companies and the like).

4) An omitted assessment is property value that should have been included on a prior year's roll but will be included on the tax roll for which this worksheet has been prepared. Omits are assessed and taxed at the rate in effect for the year omitted (RCW 84.40.080-085). Omitted assessments tax is deducted from the levy maximum before calculating the levy rate for current assessments and added back in as a current year's receivable.

5) Administrative refunds under RCW 84.69.020 were removed from the levy lid by the 1981 legislature.

6) A district is entitled to the lesser of the maximum levies determined by application of the limit under RCW 84.55 and the statutory rate limit. Levies may be subject to further proration if aggregate rate limits set in Article VII of the state constitution and in RCW 84.52.043 are exceeded.

7) This section is provided for your information, and to assist in preparing any Increase Ordinance that may be required by RCW 84.55.120. The increase information compares the allowable levy for the next tax year with your ACTUAL levy being collected this year. The actual levy excludes any refund levy and expired temporary lid lifts, if applicable. New construction, annexation and refund levies, as well as temporary lid lifts in their initial year, are subtracted from this year's *allowable* levy before the comparison is made.

8) Assessed valuations shown are subject to change from error corrections and appeal board decisions recorded between the date of this worksheet and final levy rate determination.

1/4/2017

Property Tax Banked Capacity Calculations

	2010	2011	2012	2013	2014	2015	2016	2017
Prior yr.allow. levy	19,978,764	20,517,146	21,513,813	21,986,009	22,496,863	23,229,071	24,025,631	28,586,328
Less prior yr. relevy	(29,814)	(38,896)	(18,007)	(33,439)	(29,296)	(48,175)	(22,188)	(10,409)
Prior yr. limit factor	19,948,950	20,478,250	21,495,806	21,952,570	22,467,567	23,180,896	24,003,443	28,575,919
1% of prior yr. limit factor	199,490	204,782	214,958	219,526	224,676	231,809	240,034	285,759
Prior yr. + 1%	20,148,440	20,683,032	21,710,764	22,172,096	22,692,242	23,412,705	24,243,478	28,861,678
Curr. Yr. NC	78,051	249,914	241,806	295,471	488,654	590,738	419,214	566,935
Curr. Yr. Annex	251,759	562,860	-	-	-	-	3,913,227	42,672
Curr. Yr. relevy	38,896	18,007	33,439	29,296	48,175	22,188	10,409	24,452
Allowable	20,517,146	21,513,813	21,986,009	22,496,863	23,229,071	24,025,631	28,586,328	29,495,737
Actual levy	(20,347,470)	(21,178,251)	(21,453,496)	(21,778,263)	(22,315,092)	(22,928,018)	(27,270,868)	(27,904,927)
Banked	169,676	335,562	532,513	718,600	913,979	1,097,613	1,315,460	1,590,810
Banked Capacity by Year	**169,676**	**165,886**	**196,951**	**186,087**	**195,380**	**183,634**	**217,846**	**275,350**

Actual Levy Calculations

Prior Year Levy	19,978,764	20,347,470	21,178,251	21,453,496	21,778,263	22,315,092	22,928,018	27,270,868
New Construction	78,051	249,914	241,806	295,471	488,654	590,738	419,214	566,935
Annexations	251,759	562,860	-	-	-	-	3,913,227	42,672
Relevy	38,896	18,007	33,439	29,296	48,175	22,188	10,409	24,452
Total Levy	**20,347,470**	**21,178,251**	**21,453,496**	**21,778,263**	**22,315,092**	**22,928,018**	**27,270,868**	**27,904,927**

Annual Banked Capacity Addition

1% of the amount that could have been levied if the 1% increase was taken each year.	240,034	285,759
Less: Refunds of prior year taxes that were relevied in the preceding year.	(22,188)	(10,409)
Current year addition to banked capacity	**217,846**	**275,350**

Utility Tax

Who Can Impose the Tax?

Any city or town. The authority of cities and towns to impose the tax derives from their general authority to impose excise taxes on businesses doing business within their boundaries. See RCW 35A.82.020 (code cities); RCW 35.22.195 (first class cities); RCW 35.23.440(8) (second class cities); RCW 35.27.370(9) (towns).

Whom Can the Tax Be Levied Upon?

Utility Tax *May* be Levied Upon

- Cable TV
- Electricity
- Gas
- Sewer/Stormwater
- Solid waste
- Steam
- Telephone (including cell and pager)
- Water

Utility Tax *May Not* be Levied Upon

- Broadcast Satellite TV
- Internet Services

Imposing Utility Taxes on Other Municipalities

A 2014 court of appeals decision, *City of Wenatchee v. Chelan Pub. Util. Dist.*, holds that code cities may impose the tax on other municipalities providing utility service within their boundaries, on revenues derived from their proprietary activities. More Information. The reasoning of that court decision should apply equally to other classes of cities and to towns.

What are the limits on the rate?

Limit of 6.0% (without voter approval)

- Electricity
- Gas
- Steam
- Telephone

RCW 35.21.870(1). Cities may impose a higher rate with voter approval (majority vote). Id.

No Limit

- Sewer/Stormwater
- Solid waste
- Water
- Cable TV - may not be "unduly discriminatory"; i.e., must be imposed at the same or a similar rate as is imposed on other utilities. Cable Communications Policy Act of 1984, 47 U.S.C. §542(g)(2)(A).

Referendum Clause in Rate Changes

A city that imposes a utility tax for the first time or that increases a tax rate may be required to include a referendum clause in the ordinance. From its placement in the text, it is unclear whether RCW 35.21.706, which definitely requires a referendum clause for a gross receipts business and occupation tax, applies to utility taxes. MRSC recommends a cautious approach of including referendum language in any increase. We note that a number of cities have not included a referendum clause. A court decision or legislative amendment would be needed to clarify this matter.

How Can Revenues Be Used?

There are no limits on how cities use utility tax revenues. Most cities use these revenues for general fund purposes. However, when voter approval is asked for rates higher than 6 percent, cities often dedicate the additional revenue to specific uses such as roads or public safety. You can see more voter approved utility tax increases in our elections database.

Additional Requirements

60-Day Waiting Period for Changes

Any tax changes for electric, telephone, and gas utilities cannot take effect until the end of 60 days after the enactment of the ordinance. RCW 35.21.865. If the utilities are private utiltiies, they need this time to apply to the Washington Utilities and Transportation Commission for a rate adjustment to reflect the tax change.

See Also

MRSC Inquiries - Public Works

Examples

- Bellevue Municipal Code Ch. 4.10 - General utility tax with provisions for tax relief for qualified individuals.
- Stanwood Municipal Code Ch. 5.01 - General utility tax.
- Battleground Municipal Code Ch. 3.12 and Ch. 3.32 - Separate utility tax provisions for electricity and water/sewer.
- Ilwaco Municipal Code Ch. 3.19 - General utility tax.

Tax Rebates/Discounts

- Zillah Municipal Code Ch. 13.34 - Provision for utility tax discount for low income seniors and disabled citizens.
- Federal Way Utility Tax Rebate Form - A rebate program for very low-income senior citizens.

King County Cities - Utility Tax

Utility Tax	City	Population
Yes	Seattle	686,800
Yes	Bellevue	139,400
Yes	Kent	124,500
Yes	Renton	101,300
Yes	Federal Way	93,670
Yes	Kirkland	84,680
Yes	Auburn (part)	67,340
No	Sammamish	61,250
Yes	Redmond	60,560
Yes	Shoreline	54,990
Yes	Burien	50,000
Yes	Issaquah	34,590
Yes	Des Moines	30,570
No	SeaTac	27,810
Yes	Bothell (part)	26,590
Yes	Maple Valley	24,790
Yes	Mercer Island	23,660
Yes	Kenmore	22,320
Yes	Tukwila	19,540
Yes	Covington	18,750
Yes	Snoqualmie	13,110
Yes	Lake Forest Park	12,940
Yes	Woodinville	11,570
Yes	Enumclaw (part)	11,410
No	Newcastle	11,090
Yes	Duvall	7,425
Yes	Pacific (part)	6,835
Yes	North Bend	6,570
Yes	Normandy Park	6,540
Yes	Black Diamond	4,305
Yes	Algona	3,175
Yes	Medina	3,165
Yes	Clyde Hill	3,060
Yes	Carnation	1,850
Yes	Milton (part)	1,070
Yes	Yarrow Point	1,040
Yes	Hunts Point	415
Yes	Skykomish	200

The top 10 cities (population) impose a 6% utility tax on Natural Gas, Electricity, and Telephones except the City of Bellevue which imposes a 5% tax.

The tax rate in the top 10 cities varies for other utilities from not taxed to a 15.54% utility tax on water in the City of Seattle.

Sources: 2014 AWC Municipal Taxes & Fees Survey, City of Seattle Municipal Code.

Question from Councilmembers: How much REET money can be used for maintenance?

Short answer: $1,225,000 per year based on the budgeted REET. More or less may be available based on actual collections.

Conditions for use per RCW 82.46

Dollar limit: The maximum amount of either REET 1 or REET 2 that may be spent on maintenance is the greater of $100,000 or 25% of the available funds, not to exceed $1 million per year (each for REET 1 & 2).

Allowable maintenance activities: Labor and materials that will preserve, prevent the decline of, or extend the useful life of a capital project. Maintenance does not include labor or material costs for routine operations of a capital project. O*nly the pavement overlay program in the Street Fund would meet these requirements.*

Reporting requirements: The city must prepare a written report demonstrating it will have adequate funding from all sources of public funding to pay for all capital projects identified in all CIP plans for a two-year period. This report must be adopted as part of the city's regular budget process and must include the following:

- Information necessary to demonstrate that the local government will have adequate funding to pay for all capital projects in all CIP plans.
- How revenues collected under REET 1 and REET 2 have been used during the prior 2-year period.
- How revenues collected under REET 1 and REET 2 will be used for the succeeding 2-year period.
- The percentage of funds for capital projects that is attributed to REET 1 and REET 2 revenues compared to all other sources of capital project funding.

Calculation of Sammamish REET that could be used for maintenance

2017 Budget for REET 1: $2,450,000 X 25% = $612,500 (could change based on actual collections)

2017 Budget for REET 2: $2,450,000 X 25% = $612,500 (could change based on actual collections)

Total available in 2017: $1,225,000 (could change based on actual collections)

The 2018 budget for REET is the same as the 2017 budget. To use the 2018 REET for maintenance, the CIP and associated funding would need to be determined and reported on for 2019 ahead of adoption of the 2019/2020 budget.

Prepared by Chris Gianini
1/6/2017

MRSC
Local Government Success

Transportation Benefit Districts

This page provides a general overview of transportation benefit districts (TBDs) in Washington State, including formation procedures, assumption of powers, revenue sources, reporting requirements, and sample documents.

Overview

Chapter 36.73 RCW authorizes cities (see also RCW 35.21.225) and counties to form transportation benefit districts (TBDs), quasi-municipal corporations and independent taxing districts that can raise revenue for specific transportation projects, usually through vehicle license fees or sales taxes.

Transportation benefit district revenue may be used for transportation improvements included in a local, regional, or state transportation plan (RCW 36.73.015(6)). Improvements can range from roads and transit service to sidewalks and transportation demand management. Construction, maintenance, and operation costs are eligible.

List of TBDs

MRSC is currently aware of about 90 TBDs throughout Washington State, and more are being created every year. For details, including an interactive map, see our List of Transportation Benefit Districts.

Formation

Any city or county may form a TBD by ordinance, following a public hearing, if it finds that the action is in the public interest (RCW 36.73.050). The establishing ordinance must specify the boundaries of the district - which may include all or part of the city or county establishing the TBD - and the transportation improvements that will be funded. The boundaries and functions of the TBD may not be changed without further public hearings.

A transportation benefit district may include all or part of the territory in another jurisdiction (city, county, port district, county transportation authority, or public transportation benefit area) through interlocal agreement (RCW 36.73.020(2)).

Governance

Almost all TBDs share the same boundaries as their establishing jurisdiction, in which case they must be governed by the members of that jurisdiction's legislative body, acting as a separate legal entity, unless the jurisdiction assumes the TBD's powers (see below). Even though they comprise the same members, the legislative body and the governing board are separate and distinct bodies and must hold separate and distinct meetings.

> Note that in mayor-council cities, the mayor is not part of the legislative body and is not eligible for membership on the TBD board.

If a TBD includes territory in multiple jurisdictions, it must be governed under an interlocal agreement pursuant to chapter 39.34 RCW. The governing board must consist of at least five members, including at least one elected official from each participating jurisdiction, or - if the TBD has the same boundaries as the metropolitan planning organization (MPO) - it may be governed by the MPO governing body (RCW 36.73.020(3)).

Assumption of Powers

Effective July 2015, any city or county that forms a TBD with the same boundaries as the city or county may absorb the TBD and assume all of its "rights, powers, functions, and obligations," with the result that the TBD would cease to exist as a separate entity (chapter 36.74 RCW). As of June 2016, roughly 45 TBDs - about half of the total - have been assumed by their cities or towns. (See MRSC's List of Transportation Benefit Districts for details.)

For more details, see:

- New Legislation Affecting Transportation Benefit Districts
- Assuming the Powers of Your Transportation Benefit District?

Note: A section has been added to the BARS Manual discussing the requirements for jurisdictions that assume the powers of their TBDs. In particular, a jurisdiction assuming a TBD must (1) still file an annual financial report for the year in which the TBD was assumed and (2) submit a New Entity Creation or Dissolution Notification form. For more details, see the BARS Manual, Section 3.11.1.120.

Funding Sources

Transportation benefit districts are primarily funded through vehicle license fees and/or sales taxes. There are several other funding options available such as border area fuel taxes, bonds, and impact fees, but these are seldom or never used.

Vehicle License Fees

The most common TBD funding source is a vehicle license fee (RCW 82.80.140, RCW 36.73.040(3)(b)). TBDs may impose vehicle license fees up to $50 without a public vote, subject to the conditions below, or may impose fees up to $100 with voter approval.

Until 2015, vehicle license fees of $20 or less could be imposed without voter approval, but 2ESSB 5987 increased the allowable nonvoted vehicle license fee up to a $50 maximum. However, a TBD may only impose a nonvoted vehicle license fee above $20 as follows:

- Up to $40, but only if a $20 fee has been in effect for at least 24 months.
- Up to $50, but only if a $40 fee has been in effect for at least 24 months. Any nonvoted fee higher than $40 is subject to potential referendum, as provided in RCW 36.73.065(6).

Any license fees over these amounts, up to $100, must be approved by a simple majority of voters. However, voters have rejected these measures almost every time. The only TBD to successfully pass a voted vehicle license fee is the Seattle TBD, whose voters approved a $60 fee increase in 2014 after rejecting a similar increase in 2011.

If two or more TBDs with the authority to impose a nonvoted fee overlap, credits must be issued so that the combined nonvoted fees do not exceed $50 total.

If a countywide TBD wishes to impose a vehicle license fee, it must distribute the revenues to each city in the county by interlocal agreement, which must be approved by 60% of the cities representing 75% of the city population (RCW 82.80.140(2)(a)). If this threshold cannot be met, a district that includes the unincorporated areas only may impose the nonvoted license fees discussed above (RCW 36.73.065(5)).

For a list of current TBD vehicle license fees, see the Department of Licensing's page on local transportation benefit district fees.

Sales and Use Taxes

Another common TBD funding source is a sales and use tax of up to 0.2% (RCW 82.14.0455, RCW 36.73.040(3)(a)). This tax may not be imposed for longer than 10 years at a time, except to repay debt, and must be approved by a simple majority of voters.

In recent years, voters have approved the vast majority of all proposed TBD sales and use taxes. At least three jurisdictions - Seattle, Tacoma, and Enumclaw - have imposed a sales tax on top of an existing vehicle license fee. For individual results, see MRSC's Local Ballot Measure Database.

Other Funding Sources

Other potential funding sources include:

- **General obligation bonds** (RCW 36.73.070) - MRSC is only aware of one TBD that has attempted to pass a bond measure, and it failed with 50% of the vote (Auburn TBD, 2012).
- **Border area fuel tax**, only available to TBDs that include a Canadian border crossing (RCW 82.47.020). MRSC is aware of one TBD - Point Roberts - that uses this funding mechanism.
- **Impact fees** on commercial and industrial development in accordance with chapter 39.92 RCW (RCW 36.73.040 (3)(c) and RCW 36.73.120).
- **Vehicle tolls** (RCW 36.73.040(3)(d)).
- **Excess property taxes** (RCW 36.73.060).
- **Local improvement districts** (RCW 36.73.080).

Material Change Policies

TBDs must adopt a material change policy that addresses significant changes to the transportation improvement finance plan that affect project delivery or the ability to finance the plan (RCW 36.73.160(1)). The policy must at least address material changes to cost, scope, and schedule, the level of change that will require governing body involvement, and how the governing body will address those changes. At a minimum, the policy must require the governing body to hold a public hearing if the revised cost exceeds the original estimate by more than 20%.

Budgeting

State law does not clearly require TBDs to adopt an appropriations budget. However, adopting a budget would be considered a best practice, and a number of TBDs have done so, setting up the budget process to coincide with the annual/biennial process used by the establishing jurisdiction. It is up to the TBD governing board to develop and adopt a budget policy.

Under RCW 36.73.020(4), the treasurer of the establishing city or county must serve, in an independent and ex officio capacity, as the TBD treasurer.

Required Annual Reporting

Transportation benefit districts must submit annual financial reports to the State Auditor's Office using the BARS reporting templates (RCW 43.09.230).

For information on the specific TBD accounting requirements, see the BARS Manual, Section 3.11.1. For assistance developing financial reports, see MRSC's Annual Financial Reporting Checklists page.

In addition to the annual financial report, RCW 36.73.160(2) requires TBDs to issue a separate annual transportation improvement report detailing the district revenues, expenditures and the status of all projects, including cost and construction schedules. The report must be distributed to the public and newspapers of record in the district.

Dissolution

A transportation benefit district must end its day-to-day operations within 30 days after the specified transportation improvements are completed, although the district may continue to collect revenue and service any remaining debt or financing. A TBD must be completely dissolved within 30 days after the financing or debt service is paid off (RCW 36.73.170).

Sample TBD Documents

Establishing Ordinances

- **Anacortes** Ordinance No. 2926 (2014) - Establishes powers of district and board, identifies potential revenue sources
- **Enumclaw** Ordinance No. 2524 (2013) - Identifies eligible projects as those in the six-year Transportation Improvement Program, authorizes creation of advisory committee
- **Snohomish County** Amended Ordinance No. 10-103 (2011) - Establishes a TBD in unincorporated areas after failing to reach an interlocal agreement
- **Toppenish** Ordinance No. 2012-2 - Establishes powers of district and board

Assumption Ordinances

- **Grandview** Ordinance No. 2015-09 - Repeals entire chapter of municipal code
- **Black Diamond** Ordinance No. 15-1059 (2015) - Assumes the powers of a newly formed TBD with no pre-existing funds, assets, or contracts
- **Roy** Ordinance No. 933 (2015) - Replaces "governing board" section in municipal code
- **Sedro-Woolley** Ordinance No. 1823-15 (2015) - Short and simple ordinance
- **Shoreline** Ordinance No. 726 (2015) - Detailed ordinance assuming the powers of a TBD formed in 2009 with existing funds and contracts
- Additional examples are available through MRSC's Sample Document Library.

Vehicle License Fee Resolutions

- **Covington** Ordinance No. 12-15 (2015) - $20 fee following assumption of TBD
- **Des Moines TBD** Resolution No. 0003.TBD (2015) - $40 nonvoted fee
- **Grandview TBD** Ordinance No. 2011-TBD-02 - $20 fee

- **Maple Valley TBD** Ordinance No. O-12-001-TBD (2012) - $20 fee, specifying which projects will be funded
- Additional examples are available through MRSC's Sample Document Library.

Sales and Use Tax Resolutions

- **Bellingham TBD** Resolution No. 2010-1 - Ballot proposition for a 0.2% sales tax
- **Clarkston TBD** Resolution No. TBD-2015-01 - Ballot proposition to impose a 0.2% sales tax and rescind a nonvoted $20 vehicle license fee
- **Waitsburg TBD** Resolution No. 2012-593 - Ballot proposition for a 0.1% sales tax

Material Change Policies

- **Maple Valley TBD** Resolution No. R-12-004-TBD (2012) - Fairly standard material change policy used by many TBDs
- **Prosser TBD** Resolution No. 11-TBD-07 (2011) - Includes a definition of "material change"

TBD Budgets

- **Arlington TBD** 2015 Budget - Includes work plans and costs for individual projects
- **Leavenworth TBD** 2015-16 Budget - Contains narrative to guide readers
- **Prosser TBD** 2015 Budget - Short document with a one-page budget table

Annual Transportation Improvement Reports

- **Ferndale TBD** 2014 Annual Report - Short, two-page overview
- **Marysville TBD** 2014 Annual Report - Includes project maps and photos

Dissolution Ordinances

- **Yakima** Ordinance No. 2014-006 - Dissolving TBD after projects were funded by other means

Last Modified: March 17, 2017

© 2015 MRSC of Washington. All rights reserved. Privacy & Terms.

Long Term Debt Capacity

Washington State law provides a maximum debt limit for general obligations. There are three types of limits on general debt capacity applicable to the city.

1. The first limit is on the amount of general obligation debt that can be incurred without a vote of the people (Councilmanic debt). For this type of debt, a city is limited to 1.5% of its assessed value. For the tax year 2017, this limit is $217,310,266.
2. The second statutory limit is the amount of general obligation debt a city may incur for general governmental purposes with the vote of the people (voted debt). The amount of voted debt allowed is reduced by the amount of Councilmanic debt described above. The limit of voted and Councilmanic debt combined is 2.5% of the assessed value. For tax year 2017, this limit is $362,183,777.
3. The third limit allows a city to incur general obligation debt of up to an additional 2.5% of its assessed value for bond issues approved by the voters for the purpose of parks and open space development. The two 2.5% limits provide an overall voted limit of 5% of assessed value, or $724,367,555. Voter-approved measures require a favorable vote of 60% or more of the voters in order to proceed with such debt financing.

The City of Sammamish has one Public Works Trust Fund loan for transportation outstanding as of December 31, 2016 in the amount of $2,666,667.

Legal Debt Capacity Assessed Valuation for 2017 Property Taxes - $14,487,351,093				
	General Capacity		Parks/Open Space	Total
Debt Limits	**Non-Voted**	**Voted**		
2.5% of AV	$ -	$ 362,183,777	$ 362,183,777	$ 724,367,554
1.5% of AV	217,310,266	(217,310,266)	-	-
Legal Limit	$ 217,310,266	$ 144,873,511	$ 362,183,777	$ 724,367,554
Less Outstanding Debt:				
PWTF	(2,666,667)	-	-	(2,666,667)
Remaining Capacity	**$ 214,643,599**	**$ 144,873,511**	**$ 362,183,777**	**$ 721,700,887**

Question-How much debt would $1.2 million per year pay for?

Answer-It depends on the interest rates at the time of issuance.

Examples:

In 2002 the city issued $4,060,000 in 20 year LTGO bonds.

Interest rates ranged from 3% to 4.625%.

Debt service payments averaged $370,000 per year.

$1.2 million annual payments would have paid off debt of about $13 million.

At Don Gerend's request in 2016 a comparison was done of the debt service payments on the 2001 PWTF loan and a hypothetical bond issue of the same amount in the same time period. A schedule was prepared by Public Financial Management, Inc. showing the debt payments had the debt been issued in 2001 and the debt payments had the debt been issued in 2016.

$10 million in LTGO bonds issued in 2001.

Interest rates ranged from 2.85% to 5.3%.

Debt service payments would have averaged $835,000 per year.

$1.2 million annual payments would have paid off debt of about $14.4 million.

$10 million in LTGO bonds issued in 2016.

Interest rates ranged from 0.56% to 2.54%.

Debt service payments would have averaged $560,000 per year.

$1.2 million annual payments would have paid off debt of about $21.4 million.

April 27, 2017 Finance Roundtable Summary of Comments

Question 1. Should the city diversify its revenue sources by adding a new tax?

There was general agreement among the attendees that additional taxes be used to fund desired services when current revenues are no longer sufficient. Diversifying or collecting additional taxes before they are needed was not recommended. Comments from the roundtable participants are below.

- Identify the needs first, then determine revenue sources.
- Increase taxes only when needed, not to build up reserves.
- Start with a small amount of funding from multiple sources. For example, a utility tax of less than 6% or using only part of the property tax banked capacity. It was noted that use of the property tax banked capacity adds to the property tax levy in the year taken and in future years.
- Diversify the city's revenue sources and look at reducing costs.
- Do not institute a B&O tax-scares businesses.

Question 2. Are there services the city should stop offering?

The consensus among the attendees was that the city should not stop offering any of the current services. Comments from the roundtable participants are below.

- The general sense at the table was no, the city should not stop offering any current services.
- There were several positive comments about how well the city is run. Staff works hard.
- Do not want to lose talent on the staff. May be able to be cut staff through attrition if needed. Avoid creating concern among staff about possible cuts.

Question 3. Given how Sammamish compares to its neighboring cities, what services would you want enhanced or eliminated?

Question 4. What unmet service expectations do you have now or anticipate having in the near future, and how would you want to pay for them?

Responses to questions 3 and 4 regarding additional desired services were similar and are combined below. No services were identified for elimination.

- More waterfront parks.
- Senior Center.
- Arts.
- Environmental services.
- Address opioid epidemic.
- Affordable housing and low-income housing needs. Look long-term.
- Ombudsman to work through the permitting process.

Question 5. What should be done when future contracted public safety costs increase at a greater rate than revenues? What should the city do to offset those cost increases? [$550,000 vs.$1.2 million example]

- Suggestion to use impact fees for increasing public safety costs. *(City staff comment-impact fees may only be used for transportation and parks capital projects.)*

Other comments and suggestions

- Respondent did not have enough information to decide what has little or no benefit. Noted large increase in headcount-why was additional staff needed?
- What are the effects on the cost increases for the future? (In reference to staff increases). They tend to be embedded costs and that job is not going to go away.
- The corporate world uses zero-based budgeting. Each department should determine the top priorities and use that to develop the budget.
- The city has inherited a patchwork of infrastructure, missing pieces of sidewalk for example.
- It's exciting that the city is doing a Transportation Master Plan that will help identify the capital projects that are really needed. Similar feeling about the PRO Plan, so that we will have more information about what we need. These types of plans will help get all of the capital plans into perspective.
- Concern expressed about transportation and roads.
- The city needs to anticipate future growth as we work the revenue and expense decisions, particularly as the daytime population grows.
- Continue to monitor the crossover point. It may push out as it has done in the past with responsible management.
- Why was there a 30% increase in central services? *(City staff comment-This category includes Legal, City Manager, City Council, Finance, Administrative Services, Equipment/vehicle replacement, technology*.)
- Don't use operating revenues to pay for capital.