

AGENDA

Finance Retreat – June 12th & 14th, 2008

Thursday, June 12th -- 5:30pm

A. INTRODUCTION

Council discussion, Q&A

Goals for the Retreat

- Recognize Sammamish has a structural financial decision to make
- Analyze and discuss options
- Narrow the list of options to those that best address the problem
- Agree on next steps and implementation timeframe
- Product: Written resolution at 6/17 Council meeting

Recap Ground Rules

Recap AWC Municipal Overview

B. PROBLEM STATEMENT AND ILLUSTRATIONS

Council discussion, edit/add

Structural financial problem – Current Revenue Mix isn't sustainable to meet our principles

Problem is certain, predictable and will worsen

Core Operational Principles

1. Maintain Core Staff and contract out for supplemental work
2. Proactively manage city at sustainable level of Service
3. Build and Maintain needed infrastructure
4. Maintain Transportation Concurrency
5. Make Sammamish a great place to live for citizens

Illustrations

- a. 1% cap versus CPI
- b. Over dependence on residential development
- c. Main revenues are low compared to peer cities
- d. City's responsibilities continue to grow: **Build It** is now **Run it, Maintain it and Build it**

Conclusion

- ✓ Can't sustain principles
- ✓ Decrease expenditures
- ✓ Increase revenues

C. OPTIONS

- Reduce expenses
- Add new revenue sources
- Evaluate, discuss Pros and Cons

Saturday, June 14th -- 8:30am

C. OPTIONS, cont'd

Discuss ideal revenue model

Council Discussion

- Diversified
- In-Elastic - Property Tax
- Elastic - Sales Taxes
- Semi-Elastic (Sales Tax Equalization) or Utility Tax

Discussion of Options

Narrow the Focus

Council consensus

D. NEXT STEPS

Council Discussion

- Develop Timeline
- Additional staff work
- Public outreach

E. COMMITMENT

- Council Resolution to be Drafted

Council consensus

City of Sammamish

Overview of Major Current and Potential Revenue Sources

By Lyman Howard, Finance Director

Updated June, 2008

The City of Sammamish is extremely dependent upon Property Tax as a source of revenue. Property Taxes are the City's most important source of revenue, followed by Sales Tax and Real Estate Excise Taxes (REET 1 & 2). When combined, REET Taxes are the second highest source of Revenue. Sales Tax Equalization money (Local Government Assistance) received from the State of Washington was the second highest source of revenue in 2002, but fell to 18th in 2005. Sammamish has not received any further funding from this source.

Current Revenue Sources

The following are the 2007 top twenty sources in order of actual receipts:

<u>Source</u>	<u>Amount</u>
Property Tax	\$19,021,897
Real Estate Excise Tax #1 & #2	\$3,433,729
Sales & Use Taxes	\$2,896,187
Investment Interest	\$2,286,002
Surface Water Mgt Fees	\$2,293,874
Traffic Impact Fees	\$1,885,548
Local Criminal Justice Sales Tax	\$975,646
Street Fuel Tax	\$962,677
Building Permits	\$864,123
Public Works Trust Fund Loan	\$500,000
Building Plan Check Fees	\$465,251
Public Works Plan Review	\$449,241
Cable Franchise Fee	\$439,132
King Co. Conservation Futures Grant	\$400,000
Liquor Profits	\$290,636
Park Impact Fees	\$189,117
Surface Water Development Fees	\$184,599
Counter Service Fee	\$181,197
Liquor Excise Tax	\$181,005
Space and Facility Leases Long Term	\$176,287
Total – Top 20 Sources in 2007	<u>\$38,076,147</u>

Descriptions of Top Current Revenue Sources.

Property Taxes

In Sammamish property taxes fund nearly 70% of the City's General Fund. Property taxes are the largest, single source of revenue. In 2007 alone, property tax receipts made up half (50%) of all 20 top revenue sources.

All real and personal property (except where exempt by law) is assessed by the King County Assessor at 100 percent of the property's fair market value. Assessed values are adjusted, based on market value changes. Although property taxes represent a major source of funding for City services, the portion of each property owner's total tax bill allocated to the City is relatively small. In 2008, the total property tax rate in Sammamish is \$10.447 per \$1,000 of assessed valuation, of which the City's portion is 21 percent or \$2.235. For historical reference, since 2006 the City has been constrained to a levy increase of 1% plus new construction as described below.

Yearly increases in the City's Regular Property Tax levy are regulated by Washington State Law. Cities and towns are limited to an annual regular property tax levy increase of 1 percent to the prior maximum allowed amount plus new construction or the Implicit Price Deflator, if it is less. Additional increases are subject to voter referendum.

Real Estate Excise Tax (REET)

The real estate excise tax is levied on all sales of real estate, measured by the full selling price, including the amount of any liens, mortgages, and other debts given to secure the purchase. Combined REET is the second highest source of revenue for the City. Individual REET 1 & 2 taxes are the 3rd and 4th largest sources of revenue. The State levies this tax at the rate of 1.28 percent. Cities are also authorized to impose a local tax of one-half percent. This revenue is restricted as to how it can be used. The first-quarter percent tax must be used for local capital improvements. The City deposits this money in the Park Capital Improvement Fund. The second one-quarter percent tax must be used for the sole purpose of transportation capital project funding. This revenue is deposited in the Transportation CIP Fund. Real estate excise tax collections are a function of the market place (conditional of the real estate market and interest and mortgage rates). There is an optional .5% REET component the city may collect. This funding may be used for general governmental operations. In return, the City forgoes a portion of the local sales tax and that taxing authority is conveyed to the County.

Sales & Use Taxes

Sales tax is the City's second highest source of funding for general city services. In contrast, it is the largest source of Revenue for our neighbors, Issaquah, Redmond, Kirkland, and Bellevue.

Sales tax is levied on the sale of consumer goods (except for food products and services) and construction. The amount of revenue generated by sales tax fluctuates from year to year due to changes in the economy, buying habits of consumers, and the level of construction taking place in the City.

The sales tax rate within the City of Sammamish is 9.0%. Of the 9.0%, the City receives less than 1%, and the remainder is distributed between the State and other public agencies.

An additional .5% sales tax on food and beverages sold by restaurants, taverns and bars in King County (bringing the total sales tax rate for these establishments to 9.5%) was imposed in 1996 to pay for the construction of a new, professional baseball stadium.

Sales Tax Distribution	
<i>Jurisdiction</i>	<i>Rate (%)</i>
State of Washington	6.50
King County/METRO	0.80
King County Mental Health Tax (April, 2008)	0.10
King County Transportation Tax (April, 2007)	0.10
King County Criminal Justice Levy	0.10
City of Sammamish (0.15% remitted to King County)	1.00
Regional Transit Authority	0.40
Total Sales Tax Rate	9.00
Food and Beverage Tax (for Baseball Stadium Fund)	0.50
Sales Tax Rate with Food and Beverage Tax	9.50

Local Government Assistance - MVET Mitigation

In 2002 this was the second highest source of revenue to the City's general fund, after property tax. The state legislature had provided these "backfill" funds for cities due to the repeal of the motor vehicle excise tax. The funds are intended to replace some of the lost state-shared revenues. The City of Sammamish no longer receives this revenue as the legislature has passed an assessed value limit that excludes the City from future state distributions.

Potential Revenue Sources

Additional One-Half Percent Real Estate Excise Tax

This is an additional .5 percent tax that is levied on all sales of real estate, measured by the full selling price, including the amount of any liens, mortgages, and other debts given to secure the purchase. These are an unrestricted general fund revenue source. To collect this tax, the City must give up one half of its share of the sales and use tax. The local citizens would continue to pay sales tax at the previous rate, with the county gaining the City's foregone share. Only one jurisdiction we are aware of (Clarkston) avail themselves of this option. Several Cities have looked at this option, but none have moved forward.

General Business & Occupation (B&O) Taxes

These taxes are levied at a percentage rate on the gross receipts of a business, less certain deductions. Different classes of businesses may be taxed at varying rates. Any tax rate over .2 percent must be approved by the voters via referendum.

Utility Business & Occupation Taxes

Utility taxes may be levied on the gross operating revenues earned by private utilities from operations within the boundaries of a city or its own municipal utilities. A utility tax up to 6% may be imposed on the following utilities: Electric, Gas, Steam, and telephone (including pager and cellular services). With voter approval a higher rate may be levied.

There are no restrictions on the tax rates for water, sewer, and storm water utilities. Cable TV rates may be collected at a rate that is not "unduly discriminatory."

Generally a City may not impose a tax on a special district or other City's utility that operates within its boundaries. We estimate that for every 1% levied as a utility tax, the city could collect \$1,000,000. A 6% Utility Tax could collect an estimated \$6,000,000 annually.

Levy Lid Lift

This is a voter approved property tax levy. The voters typically vote to burden themselves with an additional property tax for a specific purpose, although this is not required.

Admissions Tax

Cities may levy an admissions tax of up to 5 percent on admissions charges (including season passes) to places such as theatres, dance halls, circuses, club cover charges, observation towers, golf courses, stadiums, and any other activity where an admissions charge is made to enter the facility. Elementary and Secondary Schools are exempt from this tax. Some Cities exempt certain events sponsored by non-profit organizations from the tax. The City has a 5 percent tax on theatres. We have no theatres at this time. The City Council contemplated extending this tax so that it applied to other admissions including the NEC Golf Tournament in 2002. We estimated revenue from this source at \$200,000 for the event. We estimate a similar amount for the Senior US Open that is scheduled to have tournament at Sahalee Country Club in 2010.

POTENTIAL CAPITAL FUNDING SOURCES

Park Impact Fees

Park Impact Fees are collected from developers to offset the cost of constructing additional Park capacity for the residents and/or customers of the development. These fees would be deposited to the Development Impact Fees Fund. These fees would be transferred to fund capital transportation projects. These funds must be spent within 6 years of collection or be returned to the payor with interest.

Bonded Indebtedness

Bonded Indebtedness may take the form of either voter approved bonds which are referred to as Unlimited Tax Obligation Bonds (UTGO) or councilmanic bonds (approved by the City Council) which are referred to as Limited Tax Obligation Bonds (LTGO). The voter approved bonds are paid for by additional property taxes over and above the general levy. The voter approved bonds must be spent for the purpose specified in the levy initiative. The voters pledge to repay the bonds at what rate is required to repay the bonds over the term of the debt. 60% of the voters must pass this obligation and it requires a 40% voter turnout based on the last general election.

Councilmanic or Non-voted Bonds are repaid from regular property taxes levied and other revenue sources. The debt service (principal and interest) is a general obligation of the City and must be repaid from general revenue. An over abundance of this debt can severely impact a City's ability to provide needed operational services.

Sammamish City Council Finance Retreat June 2008

MEETING GUIDELINES

No Public Comment Period – This is Council/Staff Time

Respect each other & our differences

There are no stupid ideas or questions

Allow people to change

Phones/pagers on “off” or “vibrate”

No side talking

Raise hand to be recognized

One person talks at a time

Mayor & Facilitators have duty to make sure YOU are heard

Be honest

Keep an open mind

City of Sammamish
Draft Budget Calendar for 2009/2010 Biennial Budget Process

Date	Milestone
MAY	
5/5/2008	1st Quarter FMR released
5/14/2008	April FMR (Financial Management Report released); updated YE Forecast
May 18th/19th	2007 to 2008 Budget Carryforward Council Study Session and Motion
Month End/May	DCD revenue and unit forecast update due to Finance.
JUNE	
06/10	Municipal Finance Overview Session at Council Meeting
6/12 & 6/14	Council Financial Retreat
3rd Week/June	May FMR released; updating year-end 2008 projections
3rd Week/June	Specific Department Directions from City Manager
3rd Week/June	Input templates & Line-Item Justification Files sent out to departments
4th Week/June	Update 2008,2009,2010 Revenue Forecasts, Draft 2009-2014 CIP's
JULY	
7/2/2008	Draft Budget Inputs from Departments due to Finance
2nd Week/July	Tabulation and preliminary review of department budget requests
7/15/2008	City Manager review of preliminary department budget requests
3rd Week/July	June (2nd Quarter) FMR released; updating year-end 2008 projections
Month End/July	Update budget inputs for any CIP's revisions in July Council Meetings
AUGUST	
2nd Week/August	July FMR released; updating year-end 2008 projections
Thru August	Finance Department review/tabulation and analysis of Draft Budget
SEPTEMBER	
1st-2nd week/Sept.	Council Members review of DRAFT Budget Inputs
2nd Week/Sept.	Aug. FMR released; updating year-end 2008 projections
by Month End/Sept.	Consolidate Draft Budget Inputs into Draft Preliminary Budget
by Month End/Sept.	Meet with City Manager for Review/Modifications of Draft Preliminary Budget
OCTOBER	
1st Week/Oct	Preliminary Budget Filed with City Clerk
2nd Week/Oct	Budget Study Session
2nd Week/Oct.	Sept. (3rd Quarter) FMR released; updating year-end 2008 projections
NOVEMBER	
1st Week/Nov	Public Hearing/1st Reading Budget Ord.(CM Budget Presentation) Public Hearing/1st Reading Prop Tax Levy Ord. Adoption/2007 Salary Resolution Adoption/2007 Master Fee Resolution
2nd Week/Nov.	Oct. FMR released; updating year-end 2008 projections
3rd Week/Nov	Adoption/2nd Reading Budget Ord. Adoption/2nd Reading Prop Tax Levy Ord.
DECEMBER	
2nd Week/Dec.	Nov. FMR released Additional Budget Meetings as needed