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SHORELINE CITY COUNCIL

SPECIAL MEETINGS NOTICE

10 Year Financial Sustainability Subcommittee
Monday, March 31, 2014
8:30 p.m. to 9:30 p.m.
Conference Room 303

As required by RCW 42.30, the Open Public Meetings Act, YOU ARE HEREBY NOTIFIED of the Shoreline City Council 10 Year Financial Sustainability Subcommittee will hold a special meeting on Monday, March 31, 2014.

The meeting will begin at 8:30 p.m. and is scheduled to conclude at 9:30 p.m. It will be held in Conference Room 303 at Shoreline City Hall, located at 17500 Midvale Avenue N, Shoreline, WA 98133.

The City Council has a goal to develop a 10-year Financial Sustainability Plan to achieve sufficient fiscal capacity to fund and maintain priority public services, facilities and infrastructure. The purpose of this meeting is to discuss final revisions based on City Council Feedback.

Dated this 25th Day of March, 2014.

Jessica Simulcik Smith
City Clerk

Council Subcommittee Meeting Date: March 31, 2014

CITY COUNCIL SUBCOMMITTEE MEETING #6
10-YEAR FINANCIAL SUSTAINABILITY PROJECT
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Final Subcommittee Meeting – Finalization of Recommendations
DEPARTMENT:	Administrative Services
PRESENTED BY:	Robert Hartwig, Administrative Services Director
ACTION:	__X_ Discussion

BACKGROUND:
The first five 10-Year Financial Sustainability Subcommittee meetings have introduced the project; discussed the Base Scenario and assumptions; covered economic development, revenue, and expenditure strategies; discussed core and quality of life services; discussed various combinations of sustainability strategies; developed and prioritized preferred alternatives; provided a guideline for timing the implementation of various alternatives; discussed longer term strategies; and discussed communication options available to the City.

Tonight's meeting finalizes these discussions. Ultimately this meeting should provide a recommended alternative to help Shoreline achieve financial sustainability. It will include a communications plan. In addition this meeting will discuss a plan for dealing with surpluses in years when revenues and other sources of funds exceed expenditures and other uses of funds. Finally, we will touch on a strategy for potentially using the financial model to inform future City Council decisions.

SUBCOMMITTEE AND COUNCIL QUESTIONS:
The Subcommittee and the City Council had several questions on March 1 and March 17. These questions and responses are summarized on Attachment A at the end of this staff report. Several of the questions required additional information, provided as Attachments B, C, D, E, F, and G.

RECOMMENDED ALTERNATIVE:
Based on Subcommittee and City Council discussions, staff proposes the following recommendation from the Subcommittee to the full City Council.

The Shoreline City Council has evaluated the City's history of financial sustainability. Based on existing circumstances it appears that existing revenue sources may not be sufficient to maintain financial sustainability into the future.

The City Council believes that Shoreline's citizens have repeatedly emphasized that it is important to the community that the City maintain existing service levels whenever possible. In addition, the City Council states that it is the Council's intent to fulfill its obligations to the citizens, maintain public safety, and maintain existing City infrastructure. The City Council also intends to fulfill its regional obligations.

As such, the City Council intends to emphasize the priorities identified by our citizens in Vision 2029. The City should invest in economic development necessary to improve its tax base. In its efforts to accomplish these things the City Council also needs to minimize the effects of new and existing taxes on its citizens and businesses.

In order to preserve the City's financial sustainability, and taking into account the obligations listed above, the City Council believes that it is necessary to establish various economic development, revenue, and expenditure targets over the 2014-2024 timeframe. These targets are listed below in priority order.

1) Achieve the development of an additional 160 units of multi-family residential housing and 7,500 square feet of retail redevelopment annually, beginning in 2014.
2) Reduce the expenditure growth rate to 0.2% below the average projected ten year growth rate and attempt to maintain existing service levels, beginning in 2015. Continue to seek out efficiencies and cost-saving strategies.
3) During 2014, research ways to increase investment returns by 100 basis points (1%) per year, and implement strategies to accomplish this.
4) During 2015, perform a study that will evaluate higher cost recovery percentages for the appropriate combination of fee based programs. The results would be reviewed and with target implementation beginning with the 2016 budget.
5) In 2014, begin to identify ways to replace the $290,000 transfer from the General Fund to the Roads Capital Fund with another dedicated source of funding.
6) In 2016 or later, engage the business community in a discussion regarding the possible future implementation of a Business and Occupation (B&O) Tax.
7) Monitor progress in comparison with the Financial Sustainability Model to determine whether the property tax levy lid lift might need to be renewed in the future.

The targets outlined above are over and above pre-existing revenue, growth, and expenditure assumptions for the City of Shoreline.

Questions for the Subcommittee:

- *Do you agree with the recommendation?*
- *If not, how would you change it?*
- *Any other questions?*

COMMUNICATIONS PLAN:

Based on Subcommittee and City Council discussions, staff recommends the following plan to communicate the 10-Year Financial Sustainability Plan.

- Schedule an open house in April. Present the Subcommittee's work. Respond to questions from the public either at the meeting or prior to City Council deliberation. Seek public comment both verbally and in writing. Capture the public comment and present this information to City Council before deliberation.
- Present the recommendation and public comment to the City Council in early May. Seek the City Council's approval of the final recommendation.

- Prepare a *Currents* article discussing the final recommendation approved by City Council.
- Prepare a detailed report of the process and final recommendation. Make this report available to the public and post on the City website. Prepare articles sharing the process and outcomes with others in government who may benefit from Shoreline's efforts.
- Utilize a couple of questions in the 2014 Citizen Survey to get feedback on the recommendations in the financial sustainability plan.

Questions for Council:

- *Do you agree with the recommendation?*
- *What information would you like the public to provide to the Council during or after the open house?*
- *If not, how would you change it?*
- *Any other questions?*

POTENTIAL SURPLUSES/UNANTICIPATED SAVINGS:

During our discussions over the past several weeks, the Subcommittee has seen several financial models. In each of these models there are savings in the early years. In most of the models these savings shrink over time and are eventually replaced by deficits in later years.

Our discussions have not yet touched on what to do with the early year savings. There are a variety of options open to the City relating to future surpluses and unanticipated budget savings. Some of these options include:

- Hold the savings in reserve to cover future anticipated deficits.
- Reduce taxes and fees thus reducing anticipated savings.
- Use the savings for ongoing service level increases.
- Use the savings for various one-time costs (examples include sidewalk construction or replacement, street improvements, long-term tree management, economic development investments, etc).

Building Reserves to Cover Future Deficits

The City could use savings to increase existing fund balance reserves. The increased reserves would produce additional interest revenue, increasing future savings or offsetting future potential gaps. However, the City already has substantial reserves on hand. These reserves exceed required balances and in staff's opinion reserves are adequate in relation to the size of the City budget. Taxpayers might perceive further increases in reserves as an unwarranted level of reserves and might demand a different approach.

Reserves could also be used while the Council explores tool belt options such as items #6 and #7 on page 2 above.

Reducing Taxes and Fees

Savings could be used as a means to decrease tax rates and fees charged for services. However, it must be remembered that gaps are a possibility in the future. Reducing fees and taxes in one year only to increase them a few years later due to deficits that were originally forecast in 2014 might be seen as poor management of City finances.

Add Ongoing Services
There is always a demand for additional services, either by requesting services that are not currently provided, or requesting higher levels of service for existing programs. However, this is basically the reverse situation to reducing taxes and fees (discussed above). In this case services might be added in earlier years, only to be cut several years later if forecast deficits actually began to occur. Adding ongoing services would also reduce interest revenue, and would create the potential for bigger budget gaps in future years than the model currently forecasts.

Pay for One-time Costs
Using savings to pay for one-time costs prevents an ongoing dependence on this source of revenue. If deficits began to occur in the future it would be a simple matter to eliminate these one-time expenditures. In addition there are many pressing one-time needs throughout the City. Capital areas such as sidewalks, grant-matching, streets, and trees are all competing for a very limited supply of capital-related revenues.

Each of these areas could use additional funding sources to good effect. In particular, grant-matching would give the City the ability to leverage internal sources with available external grant sources. As Council may recall, staff presented the option to create a grant matching fund during the discussion at the February Council retreat. Staff suggested using year-end surpluses as a source to fund and replenish grant matching in the future.

In addition, economic development investments are important to Shoreline, even more important given the ambitious economic development target discussed on page 2 (above). On the other hand, spending the savings again reduces interest revenue and means that the savings cannot be used to offset possible gaps in the future.

Staff recommends that the first priority would be to ensure that there are adequate reserves. If reserves are below policy levels then any surpluses should be used to build reserves to mandated levels. If reserves meet the policy required levels or are in excess of those required, then staff would recommend that surpluses be used to fund one-time expenditures The use of the one-time surpluses should be allocated to the highest priorities of the City Council. At this time, staff would recommend the two highest priorities being economic development investments and infrastructure improvements.

Questions for Council:

- *Do you agree with the recommendation?*
- *If not, how would you change it?*
- *What split would you like to see in the recommendation that is forwarded to the City Council?*
- *Any other questions?*

FUTURE USE OF THE MODEL TO INFORM FINANCIAL DECISIONS
City staff has now been using the Municast Financial Model for several months. It has been relatively easy to adapt this model to Shoreline's unique circumstances and unique approach to sustainability. Staff believes that it is important to continue using this model in the future. It is a valuable resource providing information critical to informed decision making.

Staff is therefore proposing that the model should be used whenever future City Council actions have a financial impact on the General Fund or the Street Fund. We recommend running the financial impact through the model and providing the City Council with a graph showing the financial effects of that decision on the City's overall financial health.

Questions for Council:

- *Do you agree with the recommendation?*
- *If not, how would you change it?*
- *Any other questions?*

ATTACHMENTS:

Attachment A – Responses to Subcommittee Questions
Attachment B – Programs/Services That Would Have Been Eliminated if Proposition 1 (2010) Failed
Attachment C – Guiding Principles for Operating Service Reductions
Attachment D – Card Games Gambling Tax Rate Survey
Attachment E – General Business and Occupation Taxes
Attachment F – Local Business (B&O) Tax Rates
Attachment G – Annual Growth Rate of Expenditures

10-Year Financial Sustainability Plan
Responses to Subcommittee Questions
March 31, 2014

Meeting Date	ITEM	REPLY	STATUS
January 13	Add an agenda item to a future City Council meeting. Need to know how developers make development decisions. Can the City affect this decision making process?	Staff is planning to make this presentation at the March 31, 2014 Dinner Meeting.	Pending
February 24	Councilmember McConnell asked staff for thoughts on whether increasing parks and recreation fees will result in reduced program participation.	Pricing recreation programming is driven by two factors, market rate and illustrated demand through past enrollments. Staff analyzes both to maximize revenue without displacing participants. This is a nuanced analysis as recreation demand is fluid, shifting regularly with demographics and trends. At some point the laws of supply and demand result in lower demand when you raise prices. This is something our staff works hard at addressing each quarter when they price recreation classes. Staff is committed to maximizing revenue while providing quality programming to the citizens of Shoreline.	Complete
March 1	Councilmember Salomon and Deputy Mayor Eggen requested staff provide the list of services/programs that would have been eliminated had Proposition 1 not passed in 2010.	Refer to the enclosed memorandum (Attachment B). This provides more detail pertaining to the recommendation of the Citizen Advisory Committee (CAC) on Long-Range Financial Planning and guidelines that were developed if program cuts become necessary. The Guiding Principles for Operating Service Reductions were included in the CAC's final report and are enclosed as Attachment C.	Complete
March 1	Mayor Winstead requested that staff provide the results of how Shoreline votes on whether an annual $60 vehicle license fee and 0.1% sales tax increase should be used to help pay for Metro bus service and road projects.	Staff will provide the certified election results for Shoreline after the election, when the information is available.	Pending

March 1	Councilmember Salomon asked how much net revenue the Economic Development strategy will generate in 2024.	The MuniCast model forecasts revenues comprised of property tax, sales tax, utility taxes, and gas tax, totaling $906,000 and expenditures totaling $613,000, which results in net revenue totaling $292,000.	Complete
March 17	Councilmember Hall requested staff conduct a survey of gambling tax rates set by neighboring jurisdictions.	Refer to the Card Games Gambling Tax Rate Survey enclosed as Attachment D.	Complete
February 24 and March 17	Councilmember Roberts requested that staff provide more information pertaining to the implementation of a Business and Occupation (B&O) Tax. Specifically, Councilmember Roberts is interested in knowing: (a) who will be affected; (b) what impacts it might have on businesses; and, (c) whether or not Shoreline has a competitive advantage by not having a B&O tax.	Refer to the March 31 memorandum (Attachment E) addressing these questions. In addition, Attachment F is a list of local business (B&O) tax rates effective January 1, 2013.	Complete
March 17	Councilmember Roberts asked for clarification about why historical expenditure increases are over 4%, but the model shows increases of 3% in the future. Is the 3% rate realistic?	Refer to the March 31 memorandum (Attachment G) addressing these questions. In the past, City operations were in a “growth” mode. The City was rapidly adding parks and programs, building street improvements, etc. The new facilities and programs required ongoing staffing and maintenance that resulted in increasing the City’s FTE count and budget at a faster rate. Based on a scenario where the City maintains existing services rather than adds significant new services, in staff’s opinion, the 3% expenditure growth rate appears reasonable.	Complete

CITY OF SHORELINE

Memorandum

DATE: March 31, 2014

TO: 10-Year Financial Sustainability Plan City Council Subcommittee

FROM: Robert Hartwig, Administrative Services Director

RE: Request for the list of programs/services that would have been eliminated had Proposition 1 not passed in 2010.

CC: Debbie Tarry, City Manager
John Norris, Assistant City Manager

Question/Statement:

During the discussion with the 10-Year Financial Sustainability Plan (10YFSP) Subcommittee on March 1st, Councilmember Salomon and Deputy Mayor Eggen requested that staff provide the list of services/programs that would have been eliminated had Proposition 1 not passed in 2010.

Response:

The Citizens Advisory Committee (CAC) on Long-Range Financial Planning, which is the group formed in 2008 that studied and recommended the placement of a levy lid lift on the ballot among other things, did not make specific recommendations on program or expenditure reductions, as it felt that this was beyond its scope of responsibility. At the same time it did recommend that the City maintain current services as it believed that these services have helped develop the quality of life that Shoreline residents and businesses want. The CAC's final recommendation also included an emphasis on the City maintaining a commitment to pursuing efficiencies, although the committee recognized that this would not in itself be a solution to the long-term projected budget gaps. The CAC did develop some guidelines if program cuts become necessary which were included in its final report and were provided to the Subcommittee on March 1st. The Draft Guiding Principles for Operating Service Reductions are enclosed as Attachment C.

At the time the resolution to place the proposition on the ballot was before the City Council in July 2010, staff did not believe that additional expenditure reductions could be made without the elimination or reduction of programs. Although staff believed that the services the City currently provided at the time have helped create the quality of life and the type of community where our residents want to live and our businesses want to thrive and as such the City should continue to strive to provide these services at a high quality level, if additional revenue sources were not implemented then program reductions and/or elimination would have become necessary. Across the board reductions reduce the ability to provide quality service in all areas, and it was staff's recommendation to provide a narrower set of high quality priority services rather than a broad set of low quality or inadequate services.

In 2005 the City held a number of public meetings in which participants were asked to provide feedback on the priority of City services. The following table summarizes that information:

Programs in Priority Buckets				
#1 = $12.9M	**#2 = $5.5M**	**#3 = $2.8M**	**#4 = $0.4M**	**Have To = $4.7M**
Police – Patrol, Investigation, Traffic Enforcement	24 Hr – Customer Response Team	School Resource Officer	Celebrate Shoreline	Jail & Court Services
Economic Development	Emergency Management	Police Storefronts	Museum	Liability Insurance
Street Operations & Maintenance	Park & Facility Maintenance	Current Planning	Arts	City-wide Equipment & Supplies
Human Services	Recreation Programs	Community Information	Intergovt. Participation	City Hall Mortgage
Land Use/Building Permits	Traffic Services	Neighborhood Programs		
	Long Term Planning	Pool		

The dollars that were assigned reflect the 2010 budget less any dedicated revenue for the services listed. For example, fees generated from the pool or recreation programs have been netted against the cost. Support department costs (i.e., Finance and Information Services, Human Resources, City Manager, City Clerk, City Attorney, City Council) were allocated to each of these priority buckets.

Reviewing the dollar amount of projected gaps and the cost of each of these priority budgets provided the Council an indication of the type of program reductions that would be needed to close the projected gaps. For example, in 2011 staff projected a gap of nearly $1 million. To close that gap with expenditure reductions alone would mean that programs in both priority 4 and priority 3 buckets would need to be cut. As the gaps get larger the program cuts would get deeper and include even higher priority programs.

Proposition 1 Explanatory Statement:

The explanatory statement for the ballot measure stated, “If approved, Proposition 1 would maintain current levels of police and emergency services including neighborhood safety patrols, traffic enforcement in school zones and neighborhoods, east and west-side police store-front programs, school safety officer in Shorewood and Shorecrest high schools, enforcement of drug and vice laws, and community crime prevention programs. Proposition 1 would preserve safe, well-maintained and accessible parks and trails; playgrounds and play equipment that meet safety standards, playfields, restrooms and the Shoreline pool; and preserve recreation programs for youth, families and seniors. Proposition 1 would continue funding for community services including the Shoreline senior center and youth programs.”

DRAFT
GUIDING PRINCIPLES FOR
OPERATING SERVICE REDUCTIONS

It is the recommendation of the Long-Range Financial Planning Citizen Advisory Committee to maintain current service levels utilizing efficiencies and seeking additional revenue sources. In the event that additional revenue sources are not available to maintain services, then it is likely that the City will be faced with the reduction/elimination of services and programs. As such, if the City is faced with making reduction decisions we would recommend that the following guiding principles be used when making service reductions:

1. **Preserve Community's Priorities:** The provision of City operating services should reflect the priorities of the community. Based on community input, we believe the following services are of highest priority:
    a. Police Services – Specifically those of patrol, traffic enforcement, crime prevention and crime investigation
    b. Maintenance of the City's streets, roads, and projects that improve traffic flow
    c. Human Services
    d. Economic Development
    e. Code Enforcement

2. **Maintain Quality**: The quality of programs necessary to meet basic core services should be maintained and selective service elimination/reductions to programs are preferable to across the board cuts that may diminish the quality of core services.

3. **Greatest Public Benefit:** Fee based cost recovery should be considered for programs that primarily provide individual benefit, as opposed to broad community benefit that is for the "greater good."

4. **Cost Savings to Preserve Core Services**: Consideration should be given to cost saving measures such as staff furloughs, reduced operating hours, etc., that may preserve funding for core services. There is recognition that these types of cost saving measures may have a negative impact on the level of services provided.

5. **Operating Priority over Capital Projects**: Funding of key operating services should take priority to the funding of capital projects, when the source of funding for both is not otherwise constrained.

6. **Proportional Administrative Cuts**: Reductions in support and administrative functions should be in proportion to reductions in operating programs, but not to the extent that would curtail the delivery of core services or the ability to meet legal requirements.

7. **Technology Efficiencies:** Use technology to improve the efficiency and effectiveness of the delivery of City services instead of hiring additional staff.

8. **Increased Volunteerism:** Enhance opportunities for volunteers to help provide assistance in the delivery of City services.

Card Games Gambling Tax Rate Survey

March 31, 2014

City	Tax Rate	Municipal Code	Notes
Auburn	4%	3.80.060	Levied on gross receipts.
Bellevue	Prohibited	10.06.070	
Bothell	Prohibited	5.20.020	
Covington	20%	5.25.010	Levied on gross receipts.
Des Moines	9%	5.40.010	Except those that receive an initial business license prior to 12/31/2016, a tax of one percent of gross receipts in the first 12 months of an initial business license shall be imposed; a tax of 4 percent in the second 12 months; a tax of 7 percent in the third 12 months; and a tax of 9 percent shall be imposed thereafter. Transfers of ownership or change of business name or location will not affect the date of initial business license issuance used to calculate the tax percentage.
Edmonds	Prohibited	3.24.015	
Edgewood	20%	3.20.030(A)(6)	Levied on gross receipts exceeding $10,000.
Everett	10%	3.36.060	5% levied on gross receipts from orgranizations conducting player-funded banked card games exclusively; 10% levied on gross receipts from organizations conducting player-funded banked card games and house banked card games, or house banked card games exclusively.
Federal Way	10%	3.40.040(1)(d)	Levied on gross receipts.
Kenmore	15%	3.15.020(C)	Levied on gross receipts; 26.7% of the tax shall be dedicated to funding City capital facilities plan projects; provided, however that revenue collected from this tax shall be expended primarily for the purpose of enforcement of gambling laws.
Kent	7%	3.21.010(A)(4)	Levied on gross receipts. Beginning 01/01/2017, this tax rate will return to 11%.
Kirkland	11%	7.48.020(a)(5)	Levied on gross receipts. The City of Kirkland prohibits social card games as a commercial stimulant except those conducted by organizations operating in the city on 06/01/2011 that were licensed by the Washington State Gambling Commission before 07/26/2009.
Lake Forest Park	20%	5.06.020	Levied on gross receipts.
Lynnwood	20%	10.30.100	Levied on gross receipts.
Marysville	20%	3.92.060	Levied on gross receipts.
Milton	20%	5.36.020(C)	Levied on gross receipts.
Mountlake Terrace	10%	3.120.010(E)(3)	Levied on gross receipts.
Puyallup	20%	5.68.020(3)	Levied on gross receipts.
Redmond	12%	9.30.060(A)(5)	Levied on gross receipts.

Card Games Gambling Tax Rate Survey

March 31, 2014

City	Tax Rate	Municipal Code	Notes
Renton	10%	5-8-5(C)	A tax rate of $500 annually or 10% of gross receipts, whichever is greater.
SeaTac	10%	3.25.010(D)	Levied on gross receipts.
Tukwilla	10%	3.08.030(4)	Levied on gross receipts; rate increases to 15% when the number of card rooms in the City exceeds five; rate increases to 20% when the number of card rooms exceeds six.
University Place	20%	4.30.010(D)	Levied on gross receipts.

Memorandum

DATE: March 31, 2014

TO: 10-Year Financial Sustainability Plan City Council Subcommittee

FROM: Robert Hartwig, Administrative Services Director

RE: General Business and Occupation Taxes (Updated)

CC: Debbie Tarry, City Manager
John Norris, Assistant City Manager

Question/Statement:

During the discussion with the City Council on February 24th of the progress of the 10-Year Financial Sustainability Plan (10YFSP) Subcommittee, Councilmember Roberts requested that staff provide more information pertaining to the implementation of a Business and Occupation (B&O) tax. Specifically, Councilmember Roberts is interested in knowing: (a) who will be affected; (b) what impacts it might have on businesses; and, (c) whether or not Shoreline has a competitive advantage by not having a B&O tax.

Response:

General B&O taxes are levied at a percentage rate on the gross receipts of the business, less some deductions. There are currently 40 cities that levy a B&O tax as a percentage of the firm's gross receipts. A list of local business B&O tax rates effective January 1, 2013 is included as Attachment F. Shoreline uses three of the cities that appear on this list, Burien, Kent and Olympia, as comparables for fiscal capacity (tax per capita comparison) in the Budget Book each year (see page 53 of the 2014 Proposed Budget).

The maximum tax rate set by the legislature that can be imposed by a city's legislative body is 0.2 percent (0.002). All ordinances that impose this tax for the first time must provide for a referendum procedure as delineated in RCW 35.21.706. Any city may levy a rate higher than 0.002 if the higher rate is approved by a majority of the voters. As can be seen in Attachment F, businesses are put in different classes such as manufacturing, wholesaling, retailing, and services. The rate must be the same within each class, but it may differ among classes. If the City Council directs staff to investigate this strategy, staff will gather data analyzing the effect that the application of various rates would have on each class.

In 2003, the Legislature enacted RCW Chapter 35.102. This section requires cities with local B&O taxes to implement a model ordinance with certain mandatory provisions. One of these provisions sets a minimum gross receipts threshold of $20,000 for businesses that are to be taxed. A city may elect to deviate from this requirement by creating a higher threshold or exemption but it cannot deviate lower than the required level. For example, Mercer Island has a tax rate of 0.001 with a gross receipts annual exemption of $150,000 (i.e., only gross receipts in excess of $150,000 are subject to the 0.001 tax rate). If the City Council directs staff to investigate this strategy, staff would gather data, analyze it, and develop a minimum threshold recommendation for Shoreline businesses.

Subcommittee members Eggen and Salomon also expressed concerns about the impacts a B&O tax may have on local businesses and that implementing one may create a competitive disadvantage in the minds of business owners looking to locate in Shoreline. The following is an excerpt from the Municipal Research and Services Center's "A Revenue Guide for Washington Cities and Towns" published in June 2009:

> "Business and occupation taxes are unpopular with business people and are termed inequitable by some tax experts because they tax gross receipts rather than profits. Other people argue that the entire state and local tax structure is inequitable because Washington has no income tax. The business and occupation tax is, along with the property tax, the sales tax, and utility taxes, one of the four major revenue options given to the cities by the legislature. The basic argument in favor of the tax is that businesses benefit from general government expenditures, especially police and fire services,that are supported by the tax."

While a B&O tax may be unpopular with some, it is not definitely known whether it has an impact on where a business locates. Based on observation, however, it does not appear to have affected whether businesses located in Lake Forest Park or Seattle (two of the cities that levy a B&O tax). In addition it does not appear that Shoreline has attracted businesses away from Lake Forest Park or Seattle simply because we do not levy a B&O tax.

Revenue-Generating Regulatory Licenses:

Rather than charge a single flat fee to license all businesses, cities that set license rates high enough to generate revenue use one or more criteria to set the fees. Criteria that have been used include: establishing ranges of employees or square footage of the business and then charging different fees depending upon the range in which the firm falls; charging different fees depending on the type of business; and using a flat rate per employee or square foot.

For example, the City of Redmond (one of Shoreline's comparable cities), levies an annual Business Tax of $92 per full-time equivalent employee. Sixty-one percent ($57) of the fees collected are dedicated to fund transportation improvements that support the business community by enhancing business accessibility and mobility. The balance of funds contributes to maintaining and enhancing the City's level of service. The City of Redmond does not charge a B&O tax.

Local Business (B&O) Tax Rates
Effective January 1, 2013

City	County	Phone #	Manufacturing Rate	Retail Rate	Services Rate	Wholesale Rate
Aberdeen	Grays Harbor	(360) 533-4100	0.002	0.003 e	0.00375 e	0.003 e
Algona	King	(253) 833-2897	0.00045	0.00045	0.00045	0.00045
Bainbridge Island	Kitsap	(206) 780-8668	0.001	0.001	0.001	0.001
Bellevue	King	(425) 452-6851	0.001496	0.001496	0.001496	0.001496
Bellingham	Whatcom	(360) 778-8010	0.0017	0.0017	0.0044 e	0.0017
Bremerton	Kitsap	(360) 473-5311	0.0016	0.00125	0.002	0.0016
Burien	King	(206) 241-4647	0.0005	0.0005	0.0005	0.0005
Cosmopolis	Grays Harbor	(360) 532-9230	0.001487	0.001487	0.001487	0.001487
Darrington	Snohomish	(360) 436-1131	0.00075	0.00075	0.00075	0.00075
Des Moines	King	(206) 878-4595	0.002	0.002	0.002	0.002
DuPont	Pierce	(253) 964-8121	0.001	0.001	0.001	0.001
Everett	Snohomish	(425) 257-8601	0.001	0.001	0.001	0.001
Everson	Whatcom	(360) 966-3411	0.002			0.002
Granite Falls	Snohomish	(360) 691-6441	0.002			0.002
Hoquiam	Grays Harbor	(360) 532-5700	0.002	0.002	0.002	0.002
Ilwaco	Pacific	(360) 642-3145	0.002	0.002	0.002	0.002
Issaquah	King	(425) 837-3054	0.0008	0.0008	0.001	0.0008
Kelso	Cowlitz	(360) 423-0900	0.001	0.001	0.002	0.001
Kent**	King	(253) 856-6266	0.00046	0.00046	0.00152	0.00152
Lacey	Thurston	(360) 491-3214		0.001	0.002	
Lake Forest Park	King	(206) 368-5440	0.002	0.002	0.002	0.002
Long Beach	Pacific	(360) 642-4421	0.002	0.002	0.002	0.002
Longview	Cowlitz	(360) 442-5000	0.001	0.001	0.002	0.001
Mercer Island *	King	(206) 275-7783	0.001	0.001	0.001	0.001
North Bend	King	(425) 888-1211	0.002	0.002	0.002	0.002
Ocean Shores	Grays Harbor	(360) 289-2488	0.002	0.002	0.002	0.002
Olympia	Thurston	(360) 753-8327	0.001	0.001	0.002	0.001
Pacific	King	(253) 929-1100	0.002	0.002	0.002	0.002
Port Townsend	Jefferson	(360) 379-4409	0.002	0.002	0.002	0.002
Rainier	Thurston	(360) 446-2265	0.002	0.002	0.002	0.002
Raymond	Pacific	(360) 942-3451	0.002	0.002	0.002	0.002
Roy	Pierce	(253) 843-1113	0.001	0.002	0.002	0.001
Ruston	Pierce	(253) 759-3544	0.0011	0.00153	0.002	0.00102
Seattle	King	(206) 684-8300	0.00215 v	0.00215 v	0.00415 v	0.00215 v
Shelton	Mason	(360) 426-4491	0.001	0.001	0.001	0.001
Snoqualmie	King	(425) 888-1555	0.0015	0.0015	0.0015	0.0015
Tacoma	Pierce	(253) 591-5252	0.0011	0.00153	0.004 e	0.00102
Tumwater	Thurston	(360) 754-5855	0.001	0.001	0.002	0.001
Westport	Grays Harbor	(360) 268-0131	0.0025 e	0.005 e	0.005 e	0.0025 e
Yelm	Thurston	(360) 458-3244	0.001	0.002	0.002	0.001
Average			0.00145	0.00157	0.00197	0.00150

(v) = voter approved increase above statutory limit

(e) = rate higher than statutory limit because rate was effective prior to January 1, 1982 (i.e., grandfathered).

* Mercer Island's B&O tax rate is still .001 with a gross receipts annual exemption amount of $150,000 (i.e. only gross receipts in excess of $150,000 are subject to the .001 tax rate).

NOTE: Tax rates may apply to businesses categories other than those above. Exemptions, deductions, or other exceptions may apply in certain circumstances. Contact the city finance department for more information.

NOTE: Black Diamond repealed its B&O tax effective January 1, 2008. Buckley repealed its B&O tax effective January 1, 2007.

** NOTE: Kent adopted a B&O tax effective January 1, 2013.

CITY OF SHORELINE

Memorandum

DATE: March 31, 2014

TO: 10-Year Financial Sustainability Plan City Council Subcommittee

FROM: Robert Hartwig, Administrative Services Director

RE: Annual Growth Rate of Expenditures

CC: Debbie Tarry, City Manager
John Norris, Assistant City Manager

Question/Statement:

On March 13th, Councilmember Salomon requested that staff provide more information pertaining to the annual growth rates of expenditures in relation to the target of reducing the projected rate of expenditure increases by 0.2%. Staff responded with the following explanation:

> For the time frame 2003-2013, the annual expenditure increase averaged 4.3%. The target would therefore have reduced that rate to an average of 4.1%. The effect would have been annual increases that were about 95% of the historic rate of increase.
>
> The sustainability model projects operating expenditure increases averaging 3.0% over the next 10 years. The target would reduce that rate to an average of 2.8% per year. This is about 93% of the projected rate in the model, and it would be about 65% of historic cost increases.

Following the discussion with the City Council on March 17th, Councilmembers Salomon and Roberts requested that staff provide more detail explaining the variance from the historical average annual growth rate of 4.3% to the projected average annual growth rate of 3.0%.

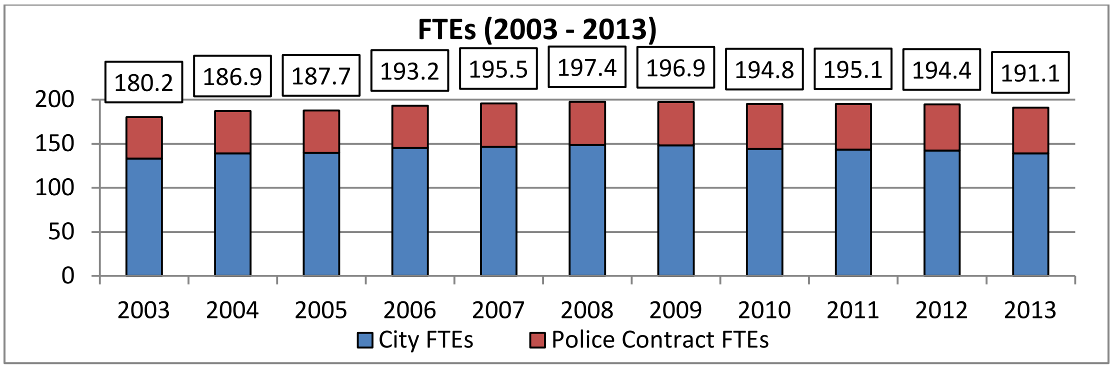
Response:

The purpose of this memo is to highlight some of the reasons that the average annual growth rate (AAGR) from 2003 through 2013 was 4.3% and why the model is projecting an AAGR of 3.0% for 2014 through 2024.

In the past, City operations were in a "growth" mode. The City was rapidly adding parks and programs, building street improvements, etc. The new facilities and programs required ongoing staffing and maintenance that resulted in increasing the City's FTE count and budget at a faster rate. Based on a scenario where the City maintains existing services rather than adds significant new services, in staff's opinion, the 3% expenditure growth rate appears reasonable.

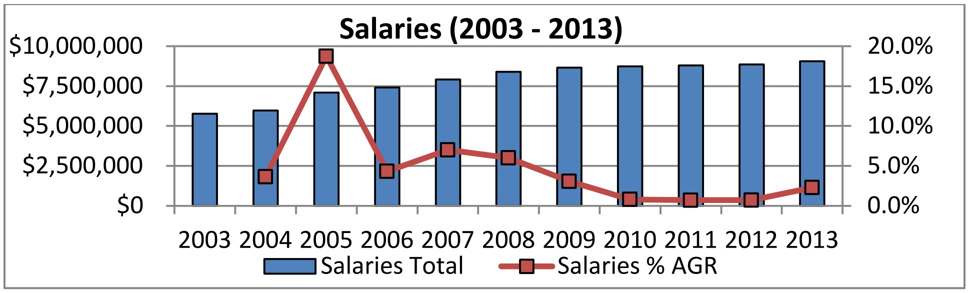
City Employees and Police Contract FTEs:

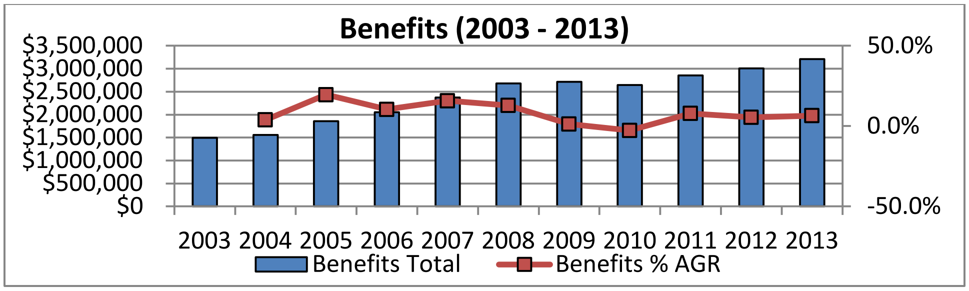
The City had 133.2 FTEs and 47 Police Contract FTEs in 2003. By 2008 the City had added 15.3 FTEs and 2.0 Police Contract FTEs, bringing the totals to 148.4 and 49, respectively. During the economic downturn between 2008 and 2013, the City reduced its FTEs by 9.3; however, the Police Services Contract FTE count was increased by 3.0. The chart below illustrates the number of FTE for each fiscal year between 2003 and 2013.



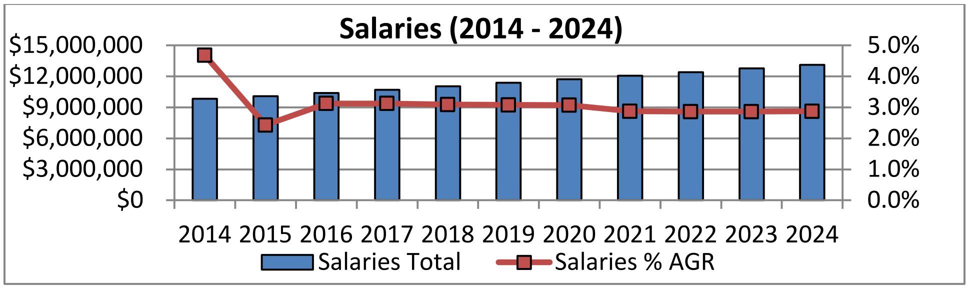
Salaries and Benefits:

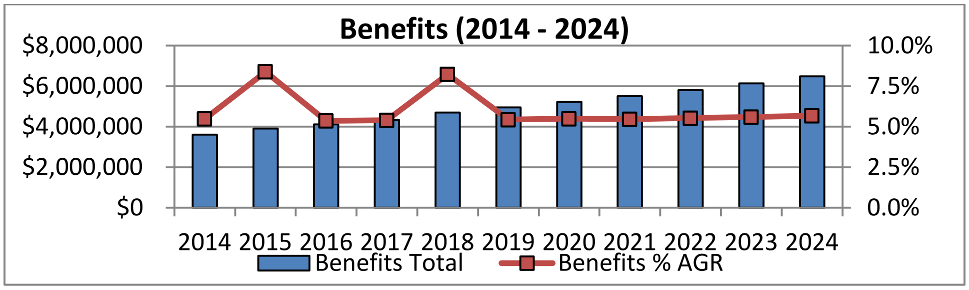
The increases in the City's FTE count noted above primarily impacted the City's salaries and benefits costs. The operating budget's AAGR between 2003 and 2013 was 4.6% for salaries and 7.9% for benefits. Within the benefits classification, the AAGR was 6.3% for insurance premiums and 26.2% for PERS.





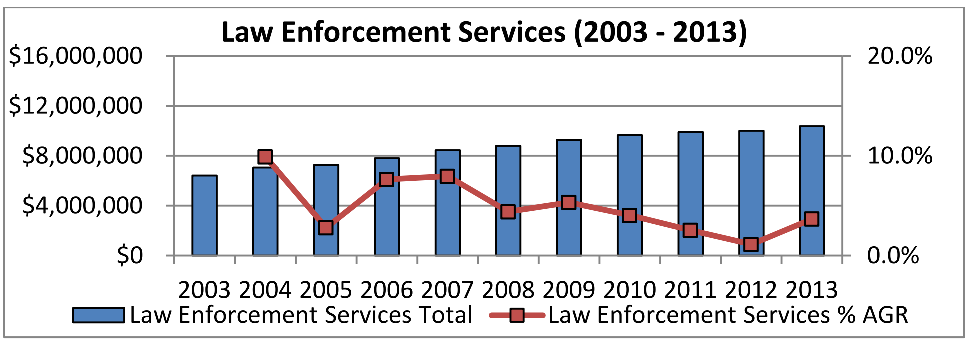
As staffing levels are held constant, the model projects the AAGR will be 2.9% for salaries and 6.1% for benefits. Within the benefits classification, the AAGR for insurance is projected to be 6.5% for insurance premiums and 5.5% for PERS. The +8.0% increases in 2015 and 2018 are attributable to projected increases in PERS rates for those years.

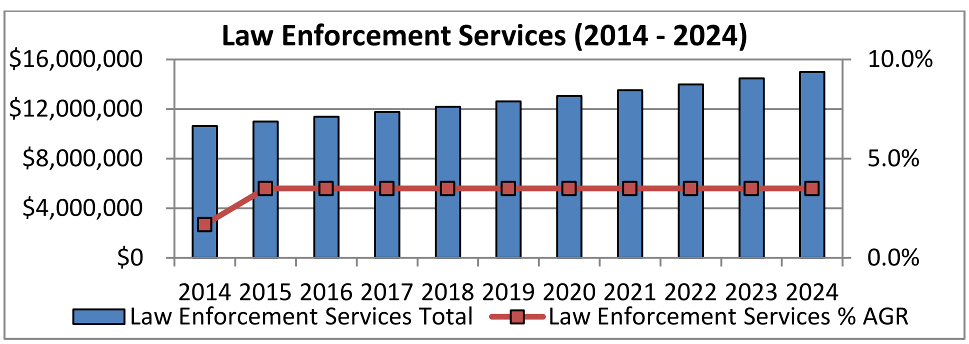




Law Enforcement Services:

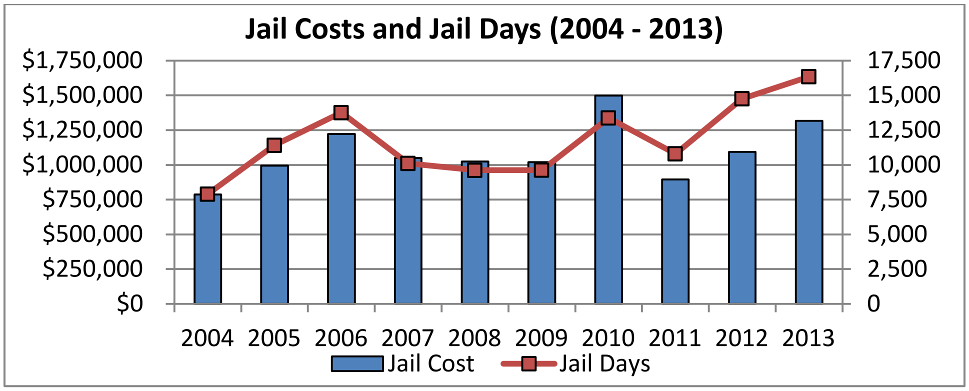
The AAGR for the Law Enforcement Services Contract was 4.9%. As was noted above, staffing levels were increased from 47 in 2003 to 52 in 2013. In addition, the Police Officers Guild received 5% annual raises for 2008 through 2012. The model projects an AAGR of 3.5% for the contract. This growth rate accounts for cost increases for all components of the contract.





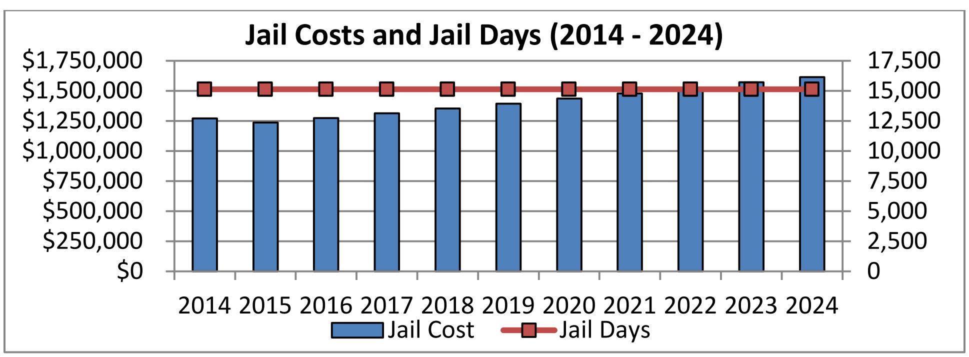
Jail Services:

The annual cost for the Jail Services Contracts fluctuated from year-to-year as staff attempted to contain costs by contracting with multiple jail providers. Between 2004 and 2010, the City contracted with King County, the City of Issaquah, the City of Renton, Yakima County, and Snohomish County.



The chart above shows the significance of the cost increase in 2010 as compared to prior years and that it was not necessarily due to a higher level of activity that had been experienced in the past. The number of jail days for 2010 was actually less than that for 2006, but the cost was 22.6% higher. This caused the City to look for an alternative entity to serve as the primary booking facility. Snohomish County offered cheaper daily rates and a more convenient location as a primary booking facility. The City has contracted primarily with King County and Snohomish County since 2011, which significantly lowered the cost while jail day activity continued to fluctuate. This is most noticeable by the fact that jail days in 2013 were 22.2% higher but costs were 12.2% lower than the peak in 2010.

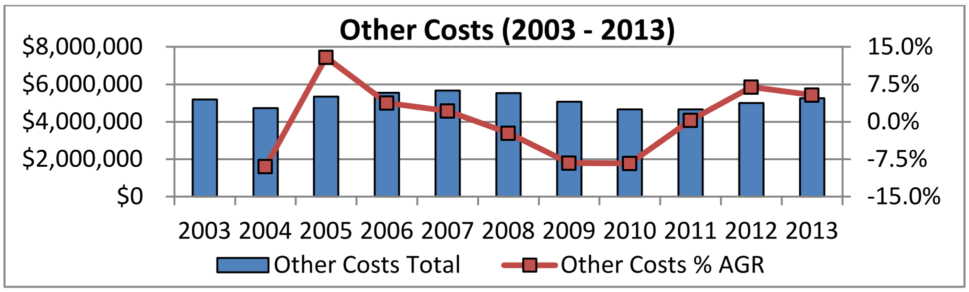
Staff anticipates jail day activity will continue to be around 15,000 annually into the future with an annual average growth rate for jail costs of 2.4%.

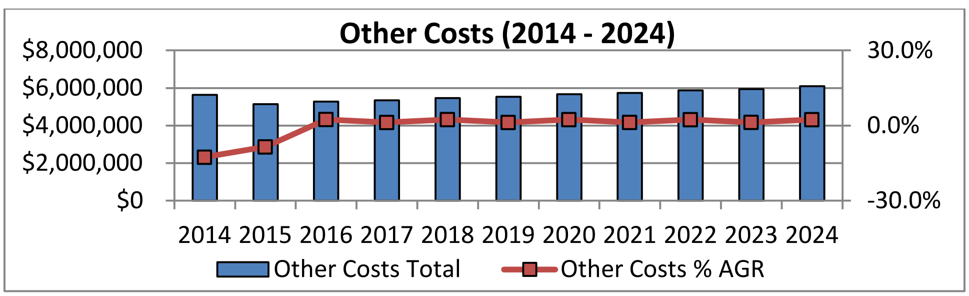


City staff are evaluating the effects of changes at the Snohomish County Jail. The outcome of our analysis may result in new cost estimates and may affect the model when the analysis is completed.

Other Costs:

The budget includes costs that are: (a) directly tied to inflation (e.g., most professional services contracts), (b) assumed to rise at the rate of inflation (e.g., supplies), and (c) assumed to remain the same from year-to-year (e.g., travel and training). The year-over-year variance in many cases can be attributable to one-time expenditures pertaining to substantial studies the City may undertake in any given year. For example, the Council authorized $180,000 in 2013 for the 145th Street Station Subarea Plan. The AAGR for these other costs from 2003 through 2013 was 0.1%. The model projects the AAGR for 2014 through 2024 will be 0.8%.





Summary:

Based on a scenario where the City maintains existing services rather than adds significant new services, the charts above illustrate that some of the costs increases will be higher than 3% and others will be lower. Overall the AAGR of the projections for the operating budget excluding transfers out for 2014 through 2024 is 3.0%, which appears reasonable in staff's opinion.