

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

<p>AGENDA TITLE: Alternative Revenue Sources DEPARTMENT: Finance Department PRESENTED BY: Debbie Tarry, Finance Director</p>

PROBLEM/ISSUE STATEMENT:

The City's current financial plan shows a projected General Fund deficit of \$667,459 in 2003 growing to \$1,616,291 in 2006. The deficit is a result of projected expenditure growth exceeding projected revenue growth. The City's revenues have been negatively impacted over the past two years by legislative factors and just recently by a downturn in economic conditions. Specifically, the elimination of the Motor Vehicle Excise Tax (MVET) resulted in an annual on-going revenue loss of \$2.5 million (sales tax equalization) and the adoption of I-747, limiting annual property tax levy increases to 1%, results in reducing the annual potential property tax revenue by approximately \$300,000. In addition to these actions, the 2002 State Legislature discontinued the funding of the MVET backfill. This resulted in the loss of \$1.5 million in annual revenue, of which \$500,000 was used for on-going operations. The slowdown in the regional and local economy has slowed sales tax revenue growth to 1% annually, a dramatic drop compared to sales tax growth that averaged 10% annually from 1996 – 2000.

Although the City has implemented moderate service increases since our inception, we are now in a position where expected future expenditure growth will exceed annual revenue growth. Already for 2003 we are anticipating police contract costs to increase an additional 5.9% and salary and benefit costs to increase by greater than 4%. Although future annual General Fund expenditure growth (2003-2008) is only projected at an average of 2.12%, revenue growth for the same period is only projected at an average rate of 1.14%.

With the expectation that the City would be facing some major financial decisions regarding future service levels and revenues, there was discussion at the April Council Retreat about possible expenditure reductions and/or revenue enhancements to keep the City fiscally sound. At the retreat staff provided the City Council a list of additional potential revenue sources. At the retreat Council requested staff to provide further information about seven of those revenue sources. Although this report focuses on revenue enhancements, staff will continue to evaluate City expenditures as we proceed with the 2003 budget process.

ALTERNATIVES ANALYZED:

Based on preliminary discussions at the 2002 City Council Planning Retreat, seven options were identified as possible new sources of revenue. Five of the options directly impact the General Fund, one option impacts the Surface Water Management Fund

(SWM) and one option impacts the Development Services Fund (DSG). The General Fund options are: a hotel/motel tax, regulatory business license fee (revenue neutral), Business and Occupation (B&O) tax, increasing the card room gambling tax rate, and lifting the property tax lid. The SWM option would be to raise the SWM fee paid by property owners. The DSG option would raise fees for land use and permit appeals. Of these options the hotel/motel tax, regulatory business license fee and the B&O tax are new to the City of Shoreline. The card room tax rate increase would increase the current tax rate from 11% to a percentage figure between 11% and 20%. The property tax levy lift would raise the levy rate from \$1.44 to \$1.60. The matrix immediately below provides a brief overview of each of the revenue options. More detailed information about each revenue option follows later in the report.

General Fund Revenue Source	Tax Change or Fee Change	Assumed Rate	City Comparables	Potential Annual Revenue Based on Assumed Rate	Potential Revenue Ranges	Tax/Fee Requirements	Political & Community Resistance
Hotel/Motel Tax	0.01%	0.01%	11 out of 11 Cities Assess the Tax	\$ 6,700	\$ 6,700	Requires citizen advisory committee	Complaints by Hotel Owners
Regulatory Business License Fee	Fee set to recover costs	\$25 per business	11 out of 12 Cities Asses the Fee	\$ 62,825	\$25,130 - \$189,000	Must be revenue neutral	Possible complaints from some businesses
Cardroom Gambling Rate Increase	1% - 9% on Gross Gambling Receipts	0.14%	Average rate of area Cities 15%	\$ 508,665	\$169,555 - \$1,525,996	Requires an Ordinance	Complaints by Gambling Interests. Possible closure of establishments
B&O Tax	.0001 - .002 of Gross Revenues	0.001	Only 13 Puget Sound Cities Assess the Tax	\$ 770,000	\$770,000 - \$1,540,000	Possible referendum or adopted via ordinance	Complaints from Business Community and costs passed onto consumers
Property Tax LID Lift	\$1.44 - \$1.60	\$1.60	King County Library Dist and Shoreline Fire passed a levy lift	\$ 1,000,000	\$ 1,000,000	Would require a vote of Shoreline Residents	Complaints from Property Owners
Surface Water Fund							
Increase SWM Fee Development Services Fund	20% increase	20%	King County implementing this increase in 2002	\$400,000	\$400,000	Requires an Ordinance	Complaints from Property Owners
See Detailed Analysis on page 14							

FINANCIAL IMPACT:

The revenue implications of the options addressed in this report are varied given the numerous alternatives that could be adopted, but the range would be \$6,000 to \$4.8 million annually in new revenue.

RECOMMENDATION

This item is for discussion purposes only. No action is required at this time. Staff would like the Council to discuss the advantages and/or disadvantages of each of these revenue options. Staff will use the feedback from the City Council discussions to assist in making recommendations in the development of the 2003 budget and, more importantly, as we continue to monitor the City's long-term financial projections.

Approved By: City Manager  City Attorney ~~N/A~~

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INTRODUCTION

Based on preliminary projections, Shoreline will be faced with a budget deficit in 2003 of an estimated \$667,459 just to maintain current service levels. This deficit is expected to grow to \$1.6 million in 2006. Knowing that the recent passage of I-747, the repeal of MVET backfill, and the downturn in the economy would negatively impact the City's ability to maintain current service levels, the City Council desired more information on seven revenue enhancement options. This report will provide detailed analysis of each of the options, including revenue generation, feasibility, comparability to other cities, and administrative and political issues.

DISCUSSION

GENERAL FUND OPTIONS

I. HOTEL/MOTEL TAX

Tax Rate

Cities in King County are authorized to levy a 1% tax on all charges for furnishing lodging at hotels, motels, and similar establishments (including bed and breakfasts and RV parks) for a continuous period of less than one month.

Current Activity and Potential Revenue

Currently, there appears to be three businesses operating in the City that would generate hotel/motel tax. Based on actual sales tax collections from years 2000 and 2001, the City could potentially receive approximately \$6,700 annually.

Use of Revenue

These funds may be used solely for paying for tourism promotion and for the acquisition and/or operation of tourism-related facilities. "Tourism promotion" is defined as:

"activities and expenditures designed to increase tourism, including but not limited to advertising, publicizing, or otherwise distributing information for the purpose of attracting and welcoming tourists; developing strategies to expand tourism; operating tourism promotion agencies; and funding marketing of special events and festivals designed to attract tourists."

Cities may advertise and publicize using written materials, advertisement on radio or television or in other media, banners, floats, etc. However, "activities and expenditures to increase tourism" could also include the salary and benefits of a city employee who staffs a city booth at a convention. Note that hotel-motel tax funds may be spent only on **marketing** special events and festivals. These monies may not be spent on the costs of actually putting on the special events or festivals. There is nothing in the definition that limits the marketing to city events, as long as the events are designed to attract tourists.

However, because of the state constitutional gift of public funds prohibition, a city should enter into a contract with any private organization providing marketing services or any other tourist promotion activity. The contract should spell out the tourism-related services to be provided in exchange for City funding and what reports will be required.

Also, any organization doing promotion on behalf of the city may only spend hotel-motel tax funds on items that the city itself could fund. This prohibits, for example, any expenditures on promotional hosting.

The limitation on using hotel-motel tax revenues for acquiring and/or operating tourism-related facilities is guided by the following definition:

“Tourism-related facility” means: real or tangible personal property with a useable life of three or more years, or constructed with volunteer labor, and used to support tourism, performing arts, or to accommodate tourist activities.

One other guiding principle is that these tourism-related facilities must be owned and operated by the city, either individually or jointly with another municipality or private party. A city cannot, for example, give money to a nonprofit museum, even though museums are a permitted use if owned by the city.

Other City Comparables

Hotel/Motel 2000 Tax Rates		
City	Basic	Additional
Algona	2%	
Auburn	2%	
Bellevue	4%	
Black Diamond	2%	
Bothell	2%	1%
Brier	2%	2%
Burien	2%	
Des Moines	2%	2%
Edmonds	2%	2-5%
Everett	2%	2%
Federal Way	2%	1%
Kenmore	2%	
Kent	2%	1%
Kirkland	2%	
Lake Forest Park	2%	
Lynnwood	2%	2%
Mercer Island	2%	
Mountlake Terrace	2%	2%
Redmond	2%	1%
Renton	2%	1%
Sammamish	2%	
Sea-Tac	2%	1%
Seattle	2%	
Shoreline	2%	
Tukwilla	2%	1%

Lodging Tax Advisory Committee

If a city with a population over 5,000 wishes to impose a new hotel-motel tax, raise the rate of an existing tax, repeal an exemption from the hotel-motel tax, or change the use of the tax proceeds, it must form a lodging tax advisory committee.

- ◆ This committee must have at least five members, appointed by the City Council.
- ◆ The committee membership must include at least two representatives of businesses that are required to collect the hotel-motel tax, two people who are involved in activities that are authorized to be funded by this tax, and one elected city official who serves as chairperson of the committee.
- ◆ Organizations representing hotels and motels and organizations involved in activities that can be funded by this tax may recommend people for membership.
- ◆ The number of committee members from organizations representing hotels and motels and the number from organizations involved in activities that can be funded must be equal.
- ◆ A city's committee may include a non-voting county official.
- ◆ The City Council shall review the membership of the committee annually.

The committee must review and comment on any proposals submitted to them regarding implementation of a new hotel-motel tax, increasing the rate of the tax, repeal of the tax, proposed tax exemptions, or a change in the use of the tax proceeds. The following committee procedures must occur:

- ◆ Submissions must occur at least 45 days before final action will be taken on the city's proposal. Even if the committee finishes its work before the 45 days are up, the city still must wait 45 days.
- ◆ The committee's comments shall include an analysis of the extent to which the proposal will accommodate activities for tourists or increase tourism, and of the extent to which it will affect the long run stability of the fund to which the hotel-motel taxes are credited.
- ◆ If the advisory committee does not submit comments before the time of that final action is to be taken on the proposal, the City may go ahead and take final action.

Summary

Based on the preliminary review of this revenue resource it does not appear that a significant amount of revenue would be generated from this revenue source (\$6,700 annually). There are strict requirements on the process to implement the tax and how the money could be used. The Council would need to weigh these requirements against the need and amount of revenue to be generated.

II - B & O Taxes

Tax Rate

The maximum tax rate that can be imposed by a City is .2%. Cities that impose this tax for the first time must provide for a referendum procedure.

Current Activity and Revenue Generated

Generally taxing authorities establish four business categories in which a business will be assigned. Within the business category the tax rate must be the same, but it may differ between categories. The four most popular categories are manufacturing, wholesale, retail, and services. In 2001, Shoreline businesses generated an estimated \$597 million in taxable sales. A business and occupation tax is applied on gross revenues of all businesses unless specific exemptions are made. For this reason the taxable sales is a low figure to apply the business and occupation tax rate to. The Department of Revenue has indicated that in estimating the amount of revenue to be generated from business and occupation tax, that the City could assume gross revenues from businesses to be approximately 30% greater than taxable sales. Using this assumption there is approximately \$700 million in gross receipts generated within Shoreline. Based on this level of activity, the anticipated maximum revenue generated from the B&O tax at .2% would be \$1.5 million. Using .1% as the tax rate, the B&O tax would generate \$770,000 annually.

An option could be to only assess a B&O tax on some of the major business categories instead of on all four. This may provide more equity if the business categories that do not currently pay sales tax were assessed (i.e., manufacturing, wholesale, and services).

Use of Revenue

There are no statutory limitations on how these revenues must be used.

Other Cities Comparables

Currently only 13 cities in the Puget Sound Region assess a B&O tax and only eight King County Cities assess a B&O tax. The table below lists all the Puget Sound Cities with a B&O tax and corresponding tax rate.

City	Manufacturing Rate	Retail Rate	Services Rate	Wholesale Rate
Bainbridge Island	0.10%	0.10%	0.10%	0.10%
Bellevue	0.15%	0.15%	0.15%	0.15%
Burien (implemented 2001)	0.05%	0.05%	0.05%	0.05%
Everett	0.10%	0.10%	0.10%	0.10%
Issaquah	0.08%	0.08%	0.10%	0.08%
Lake Forest Park	0.20%	0.20%	0.20%	0.20%
Mercer Island	0.10%	0.10%	0.10%	0.10%
North Bend	0.15%	0.15%	0.20%	0.15%
Olympia	0.10%	0.10%	0.20%	0.10%
Seattle	0.22%	0.22%	0.42%	0.22%
Snoqualmine	0.15%	0.15%	0.15%	0.15%
Tacoma	0.11%	0.15%	0.44%	0.10%
Tumwater	0.10%	0.10%	0.20%	0.10%

B&O Tax Issues

- ◆ This tax is very unpopular with the business community and is considered inequitable because it taxes gross receipts as opposed to profits.

- ◆ Shoreline's neighboring cities Lynnwood, Edmonds, Mountlake Terrace, and Kenmore do not have a B&O tax. This fact could negatively impact Shoreline's economic development efforts. Given the unpopularity of this tax, business leaders have argued to have this tax repealed. Recently the City of Vancouver repealed its B&O tax. Conversely, in January of 2002 the City of Burien implemented a B&O tax.
- ◆ In addition to tax collection, the City is responsible for ensuring compliance, accuracy and timeliness of payment, which would require considerable staff time or the allocation of funds for a private contractor to provide audit services.
- ◆ It is difficult to determine if the implementation of the business and occupation tax would result in increased costs to the consumer.
- ◆ A requirement of implementing a business and occupation tax is that the ordinance adopting the tax must provide for a referendum vote. If the citizens of Shoreline generate sufficient signatures to have a referendum vote, then there may be political issues that the Council would need to address, along with delays in implementing the B&O tax or the inability to implement the tax if the referendum vote results in its repeal. The City was required to provide for a referendum when the utility tax was adopted. There was no petition submitted to have a referendum vote on this issue.
- ◆ Many cities exempt businesses that generate revenues below a certain level. The revenue estimates provided in this report would need to be lowered if a B&O tax were implemented and the City exempted businesses with a revenue generation below a specific threshold.
- ◆ The business community has lobbied the State Legislature during the last few legislative sessions to either make additional B&O tax exemptions or repeal the B&O tax. Businesses have claimed that differences between State and local community B&O tax rates and tax calculations are overly burdensome. In 2001 the Governor's Office worked with representatives from the business community to develop a model ordinance to help standardize the B&O tax. Although there appeared to be agreement from the business representatives to proceed with this ordinance, it now appears likely that there may be future attempts by the Business Association to limit or repeal the B&O tax.

Summary

The B&O tax could generate up to \$1.5 million of additional revenue. This tax has generally been very unpopular with the business community. Therefore, this tax is very controversial. The cost of the tax could be passed along to the consumer in the form of higher prices. To illustrate what the cost implications could be, \$100 spent on retail items with a .1% tax rate would equate to ten cents of additional cost that could be passed along to the consumer. The State of Washington already assesses a B&O tax for all Shoreline business and service operations at the following rate: manufacturing at .48%, retail at .471%, services at .15% and wholesale at .48%. If the City implemented a local B&O tax it would be on top of the state tax.

III. Increase Gambling Tax Rates for Card Games

Tax Rate Change

The maximum tax rate that can be imposed by a City is 20% on gross receipts. Currently Shoreline's rate is 11%.

Current Activity and Potential Revenue

At this time, Shoreline has three operating mini-casinos and one card room. There are two mini-casinos waiting to begin card game activity. Based on 2001 activity, a tax increase could generate between \$169,555 - \$1,525,998 annually. Each percentage increase in the card room gambling tax represents an additional \$169,555 in annual revenue.

Use of Revenue

The statute that governs gambling states that cities that levy gambling taxes "shall use the revenue from such tax primarily for the purpose of enforcement of the provisions of this chapter" (enforcement of gambling laws and regulations). In 1991 the Washington Supreme Court ruled that gambling tax revenues must first be used for gambling law enforcement purposes to the extent necessary for that city. The remaining funds may be used for any general government purpose.

Other Cities Comparables Tax Rate and Number of Mini-Casinos

City	Number of Mini-Casino's	Card Game Tax Rate	Total Gambling Revenue
Auburn	1	12%	Not Available
Edmonds	0	20%	\$291,000
Everett	5	10%	\$1,500,000
Lake Forest Park		If Allowed -	
	0	20%	\$0
Mountlake Terrace	1	2002 = 8% 2003 = 10%	\$608,094
Renton	2	20%	\$2,500,000
Seattle	NA	Does Not Allow Card Rooms	\$0
Kenmore	1	11%	\$567,204
Federal Way	2	20%	\$1,450,000
Lynnwood	NA	Does Not Allow Card Rooms	\$0
Shoreline	3	11%	\$ 2,500,000

Because of Shoreline's geographical position, in that it's the first city north of Seattle that allows card rooms, it offers a competitive advantage to gambling establishments. However, Mountlake Terrace and Everett are close and both currently have lower card room tax rates.

2001 Card Room Gambling Tax*	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
Operation A	768,392	838,246	908,099	977,953	1,047,807	1,117,661	1,187,515	1,257,368	1,327,222	1,397,076
Operation B	530,338	578,551	626,763	674,976	723,188	771,401	819,614	867,826	916,039	964,251
Operation C	555,824	606,354	656,883	707,413	757,942	808,472	859,001	909,531	960,060	1,010,590
Operation D	10,555	11,514	12,474	13,433	14,393	15,352	16,312	17,271	18,231	19,190
Totals	1,865,109	2,034,664	2,204,220	2,373,775	2,543,330	2,712,886	2,882,441	3,051,996	3,221,552	3,391,107
\$\$ Variance		169,555	339,111	508,666	678,221	847,777	1,017,332	1,186,887	1,356,443	1,525,998
\$\$ Increase per each Operator		169,555	339,111	508,666	678,221	847,777	1,017,332	1,186,887	1,356,443	1,525,998
Operation A		\$ 69,854	\$ 139,708	\$ 209,561	\$ 279,415	\$ 349,269	\$ 419,123	\$ 488,977	\$ 558,830	\$ 628,684
Operation B		\$ 48,213	\$ 96,425	\$ 144,638	\$ 192,850	\$ 241,063	\$ 289,275	\$ 337,488	\$ 385,701	\$ 433,913
Operation C		\$ 50,529	\$ 101,059	\$ 151,588	\$ 202,118	\$ 252,647	\$ 303,177	\$ 353,706	\$ 404,236	\$ 454,765
Operation D		\$ 960	\$ 1,919	\$ 2,879	\$ 3,838	\$ 4,798	\$ 5,757	\$ 6,717	\$ 7,676	\$ 8,636
*Revenue estimates are based on 2001 actual activity and assume no reduction in card rooms or market share										

Detailed Revenue Analysis

The table below highlights revenue changes generated by changing the card game tax rate. Additionally the table also shows that impact on the four gambling institutions in Shoreline. As the table illustrates, a 1% increase in the card game tax rate generates an additional \$169,555 in annual revenue.

Issues

- ◆ Raising the card room rate will generate strong opposition from mini-casino owners and operators and other gambling interests and opposition from those who oppose gambling and its role in the City.
- ◆ It is possible that if the card room rate is raised too high, the threat of a mini-casino leaving the City or closing could become a reality. As highlighted in the first table, Everett and Mountlake Terrace offer lower tax rates and could be an attractive relocation site. The City of Federal Way raised its tax rate to 20% and reported that no mini-casino closed or moved.
- ◆ Recently a few state legislators have attempted to legislate decreases in gambling tax rates including lowering card game tax rates. This past year the state discussed instituting their own tax on gambling operations. Therefore, the future of gambling tax revenue can be considered somewhat uncertain.

Summary

An increase in the current gambling tax rate could generate up to \$1.5 million in annual revenue. Staff has already been contacted by one casino voicing concerns about the Council considering an increase in the gambling tax rate. This casino claimed that an increase would put them out of business. Federal Way indicated that they received these same concerns when they raised their gambling tax, but this did not occur. There has been a strong lobbying effort from gambling institutions to have the State Legislature reduce the maximum allowable gambling tax rate for local governments. In 2002 the State considered implementing such limits and their own gambling tax.

IV. Regulatory Business License Fee

Fee Rate

These fees are set at a flat rate per license in an amount designated to recover the costs of registering and licensing the businesses/firms and maintaining the licensing program. This fee is not intended to generate revenue beyond providing for the costs of the program.

Value of the Business License Fee

The primary reason to enact this fee is to provide the City with a record of the owners, contact numbers, addresses, business type and notification of any change in the type of business. This information can be valuable in case of complaints, issues of public safety, verifying compliance with City codes and regulations and economic development. If the City does adopt a B&O tax, a regulatory business license will be necessary to confirm business type, revenue collections and ensure the ability to audit.

Other City Comparables

The table immediately below lists the cities and what they charge for a standard business license fee.

City	Standard Fee
Auburn	\$25
Bothell	\$18-476
Burien	\$15
Edmonds	\$65
Everett	\$10
Federal Way	\$15
Kent	\$75
Kenmore	\$0
Lake Forest Park	\$20
Lynnwood	\$40 (\$4.50/Employee)
Mountlake Terrace	\$75-500
Seatac	\$35
Seattle	\$75

Current Activity and Revenue Generated

At any given time the City has roughly 2,513 businesses that have reported at least \$25 in annual sales tax revenue paid to Shoreline. Given that level of business activity and assuming a Shoreline business license fee of \$25, a business license fee would generate \$62,825 in annual revenue. If a fee were enacted the City would need to compare the cost of implementing and maintaining the program against the revenue generated. Costs of implementing the program would include additional staff time to coordinate and implement, software to manage the program, and overhead impacts for departments to respond to any questions or issues raised by the program.

Use of Revenue

These funds may be used only to operate the Business License Fee program and, when applicable, recover direct overhead costs.

Issues

- The fee would be new and could generate opposition from the business community for being intrusive.
- Operation of the regulatory business license program will create the need for additional resources and staffing obligations.
- The information gained through a business license program would be useful for assisting in economic development, safety, land use and zoning, and sales tax monitoring.

V. Property Tax Levy Lift

Tax Rate Change

A property tax levy lid lift allows a city to raise its property tax rate to the maximum allowed if approved by the voters. The maximum rate for the City of Shoreline is \$1.60 per \$1,000 of assessed valuation (AV). The 2002 property tax rate is \$1.43 and the projected 2003 rate is \$1.40. Lifting the property tax lid could raise the levy rate from \$1.40 to \$1.60 per \$1,000 of AV for 2003. After 2003 the levy rate will gradually decrease as AV increases.

Other City and Jurisdictional Comparables

Recently the Shoreline Fire Department and the King County Library District both put ballot measures to a vote for a levy lid lift and they both won approval. At the time of this report, staff has been unable to locate a city government that has raised its levy in response to I-747, but many have said that they are considering this.

Current Activity and Revenue Generated

For 2003 the City is projecting to receive \$6,567,756 in property tax revenue. If the levy limit is set at the maximum \$1.60 per \$1,000 AV, it would generate approximately \$900,000 in new revenue annually.

Use of Revenue

There are no statutory requirements on how the revenue must be spent unless, of course, the ballot measure states a specific purpose. It may be helpful in getting such a ballot measure passed to have a specific purpose stated on the ballot measure.

Issues

- For a city to activate a levy lift it must be placed on the ballot for a vote and be approved by a simple majority. The proposition before the voters can stipulate the length of time the levy lift will be in effect but is not required to unless the levy lift is being used for debt service. Then the levy lift is limited to nine years.
- A levy lid lift basically provides for a one-time setting of a new ceiling on property tax revenues. Future year levy increases are subject to state law (1%) until such time as the City believes it makes both financial and political sense to hold another levy lid lift election.
- Although I-747 passed on a state-wide basis to limit property tax increases to 1%, it did not pass in Shoreline.

- The property tax revenue burden in Shoreline is greater for the residential community than for the commercial community.
- Although the City rate is low, our composite property tax is among the top 10 in King County.

Surface Water Management Fund Revenue Options (SWM)

I. SWM Fee

Fee Rate Change

The SWM fee would be increased by approximately 20%, raising the current single family home rate of \$85 per year to \$102 per year. Non-residential properties are assessed various fees based on impervious surface. These fees would also increase by approximately 20%.

Other City and Jurisdictional Comparables

King County raised their SWM fees for 2002. Upon incorporation, the City adopted the King County rates. This increase would again align the City's rates with those charged by the County. The table immediately below shows SWM single-family rates for other local jurisdictions.

Agency	Annual Fee
King County	\$102
Seattle	\$72
Redmond	\$138
Lake Forest Park	\$85
Mountlake Terrace	\$60
Mercer Island	\$124
Kirkland	\$60
Burien	\$85

Current Activity and Revenue Generated

SWM Fees are projected to generate \$2.09 million in 2003. Applying a 20% fee increase, the revenue would increase to \$2.5 million, roughly a \$418,000 increase.

Use of Revenue

Revenue must be spent in the SWM fund. The proposed 2003 – 2008 SWM Capital Improvement Plan includes \$6 million in expenditures. Without this increase the City would be required to borrow an additional \$2.5 million to implement the proposed flooding improvement projects.

Issues

- Property owners will be paying a higher fee and that could generate complaints.
- The 2003 – 2008 CIP includes the development of a comprehensive SWM plan and it is likely that the infrastructure needs of SWM facilities could require additional resources. The SWM master plan will not be completed until 2004, so this fee increase could be an interim measure.

Development Services Fund Revenue Options(DSG)

I. Land Use Appeal Fee Change

Fee Rate

Currently Shoreline assesses a flat \$364 fee for Land Use Appeals.

Issues

The current land use appeal fee does not allow the City to fully recover the costs to defend a land use appeal. It has been the City's goal to recover between 70 – 80% of permit costs. In order to meet this policy goal, the appeal fee would need to be raised from its current rate of \$364 to a range of \$3,500 - \$9,800. However, fees of this size could be considered excessive and punitive to a potential appellant.

The gap between fee recovery and land use appeal costs has grown as the appeals become more complex. Planning (PADS) desires to create a fee structure that recovers a larger share of the cost of appeals without creating an undue burden on the appellant. In 2001 PADS completed six land use appeals that generated \$2,100 in fees but also generated \$39,000 in costs, which represents only a 5% cost recovery rate. So far in 2002 the City is currently defending six land use appeals which have created costs similar to 2001.

Fee Options and Potential Cost Recovery

PADS conducted a survey and determined that local governments use four types of fees which are listed below:

1. **Flat Fee** - This fee structure assesses a one time fee to the appellant, and there are no other additional fees except for copy costs. The fee structure is utilized by Edmonds (\$150), King County (\$125), Lake Forest Park (\$500), Lynnwood (\$100), Renton (\$75) and Shoreline (\$364).
2. **Actual Cost of the appeal** – This fee structure assesses the complete cost of the appeal to the appellant. Cities that use this fee structure include Bremerton, Clyde Hill, North Bend, Spokane and Woodway. It is important to note that in some cases, due to complex appeals, the actual cost of the appeal has reached as high as \$26,000, generating legal challenges.
3. **Hourly rate** – This fee structure assesses an hourly rate but has a ceiling on the chargeable fee for the appeal. Seattle uses this fee structure and charges \$175 an hour, with a fee cap that varies depending on the case.

Planning's recommendation would be to utilize a combination of a base fee and an hourly rate that would be capped at some level. If Council is interested in pursuing this fee format, staff will do more specific revenue and cost analysis to determine an appropriate fee structure.

RECOMMENDATION

This item is for discussion purposes only. No action is required at this time. Staff would like the Council to discuss the advantages and/or disadvantages of each of these revenue options. Staff will use the feedback from the City Council discussions to assist in making recommendations in the development of the 2003 budget and, more importantly, as we continue to monitor the City's long-term financial projections.