

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: Ordinance No. 367, Establishing a Utility Tax on the City Stormwater Utility, and Amending Shoreline Municipal Code 3.32.020
DEPARTMENT: Finance Department
PRESENTED BY: Debbie Tarry, Finance Director

PROBLEM/ISSUE STATEMENT:

The 2005 proposed budget recommends including the surface water utility as a utility subject to the City's utility tax at the rate of six percent. This is part of the City Manager's recommended long-term financial plan to provide the required funding to maintain services in the future.

ALTERNATIVES ANALYZED:

Adopt Ordinance No. 367

Adopting ordinance no. 367 will make the City's Surface Water utility subject to a six percent utility tax. Utility tax is considered a general revenue that can be used for any purpose. The estimated utility tax to be collected from the surface water utility is \$150,000 for 2005. This revenue is considered an on-going revenue source that can be used to support on-going operations. The 2005 proposed budget recommends that the City start a fund to provide for major repair and replacement of current City facilities and major park infrastructure. The current estimated annual funding requirement is \$120,000. As part of the 2005 budget preparation new continuing programs were only to be funded with new on-going revenues or by the reduction of annual expenditures. The proposed utility tax from the surface water utility will provide the required on-going revenue.

Not Adopt Ordinance No. 367

Failure to adopt ordinance no. 367 will result in \$150,000 less of on-going annual revenue in 2005 and beyond. Although the 2005 Proposed Budget would remain balanced if ordinance no. 367 is not adopted since operational revenues exceed proposed operational expenditures by \$177,000 in 2005, the utility tax is part of the City Manager's recommended long-term financial plan. The elimination of \$150,000 of on-going revenue would require that the City not commit to funding the facility repair and replacement fund on a continuing basis.

FINANCIAL IMPACT:

The utility tax on the surface water utility will generate \$150,000 in general on-going revenues on an annual basis. The impact to a single family residential unit is \$6 per year.

RECOMMENDATION

Staff recommends that Council adopt Ordinance No. 367 as proposed.

Approved By: City Manager  City Attorney 

INTRODUCTION

The 2005 proposed budget recommends including the surface water utility as a utility subject to the City's utility tax at the rate of six percent. This is part of the City Manager's recommended long-term financial plan to provide funding to maintain services in the future.

BACKGROUND

In 1999 the city implemented a utility tax to replace revenues that were lost with the passage of Initiative 695 and the elimination of the motor vehicle excise tax (MVET). MVET funded sales tax equalization, which the City was eligible to receive. Ordinance No. 257, which adopted the utility tax, did not include the surface water utility as a utility subject to the utility tax.

Many cities do include their surface water utility as subject the City's utility tax. The 2002 Association of Washington Cities revenue survey showed that at that time there were 47 cities in Washington that made their surface water utility subject to the utility tax. Since there is no legal limit on the percent of utility tax that a surface water utility may be subject to, the percentage of utility tax on surface water ranged from three to nineteen percent. The complete list of these cities can be found as Attachment A.

During the 2004 City Council retreat the Council reviewed the City's long-term financial projections. These projections were updated and presented to the Council in September 2004. Based on current trends and assumptions the long-term projections show that expenditures to provide current services are projected to grow faster than revenues to support those services. In order to provide a stable financial environment in which to provide City services the City Manager made the following recommendations to address the City's long-range financial plan:

Action	Effective Year		
	2005	2006	2007
Reduce department base budgets by 1% and review low priority services for elimination (\$167,000)			
Implement a utility tax on our surface water utility (\$150,000)			
Increase recreation fees by approximately 10% and enhance the City's scholarship program (\$36,000)			
Implement a revenue generating regulatory business license program (Net Revenue \$50,000)			
Seattle City Light franchise fee (6%) on the distribution portion of the electric utility fees (\$0 to \$600,000)			
Property tax levy lid lift (\$0 to \$2 Million)			

The 2005 proposed budget includes the City Manager's recommended actions for 2005.

The 2005 proposed budget recommends implementing a new on-going program to fund for the long-term repair and replacement of existing City facilities and major park infrastructure. The annual allocation for funding is \$120,000. This new expenditure requires new continuing revenues for the long-term funding of the program.

Since the City does not manage other utilities, the City has an agreement with King County to bill the City's surface water utility fees on the County's property tax statements. Although this is the case, the surface water fees are not a property tax, they are fees to provide surface water management and capital related improvements. The City pays an administrative fee to the County for the surface water billing service which is paid for through the surface water utility rates. We do not pay the County for billing of property tax. If ordinance no. 367 is approved, we will notify King County to adjust the surface water utility rates to reflect the assessed utility tax.

The City Council will be reviewing the surface water master plan starting in December 2004. This plan will provide guidance for future operation and capital needs for the utility. Based on the final decisions made by the City Council the utility rates will be set at the rate required to fund these costs.

SUMMARY

Adoption of ordinance no. 367 will result in the surface water utility being subject to a six percent utility tax. The impact to a single family residential home will be \$6 in 2005. Failure to adopt ordinance no. 367 will result in \$150,000 less of on-going revenue in 2005 and annually thereafter. Although the 2005 Proposed Budget would remain balanced, on-going revenues exceed proposed on-going expenditures by \$177,000 in 2005, the utility tax is part of the City Manager's recommended long-term financial plan. The elimination of \$150,000 of on-going revenue would require that the City not commit to funding the facility repair and replacement fund on an on-going basis.

RECOMMENDATION

Staff recommends that Council adopt Ordinance No. 367 as proposed.

ATTACHMENTS

Attachment A – List of Washington Cities assessing a utility tax on their surface water utility.

Attachment B – Ordinance No. 367

ATTACHMENT A

Cities in Washington that include the surface water utility as subject to the City's utility tax

JurisdictionName	Do you Impose a Utility Tax on Storm Drainage?	Tax Rate 1/1/2002
Algona	Yes	6%
Anacortes	Yes	7%
Auburn	Yes	5%
Bainbridge Island	Yes	6%
Bellevue	Yes	5%
Bellingham	Yes	10%
Blaine	Yes	6%
Bonney Lake	Yes	8%
Buckley	Yes	6%
Castle Rock	Yes	5%
DuPont	Yes	6%
Federal Way	Yes	5%
Fircrest	Yes	6%
Friday Harbor	Yes	4%
Gig Harbor	Yes	5%
Hoquiam	Yes	6%
Kent	Yes	5%
Kirkland	Yes	6%
Lacey	Yes	6%
Langley	Yes	6%
Long Beach	Yes	6%
Marysville	Yes	6%
Montesano	Yes	3%
Mount Vernon	Yes	7%
Mukilteo	Yes	6%
North Bend	Yes	6%
Oak Harbor	Yes	6%
Ocean Shores	Yes	6%
Olympia	Yes	7%
Omak	Yes	10%
Pasco	Yes	9%
Port Townsend	Yes	10%
Poulsbo	Yes	6%
Puyallup	Yes	8%
Renton	Yes	6%
Richland	Yes	9%
Seattle	Yes	10%
Shelton	Yes	5%
Snoqualmie	Yes	6%
Spokane	Yes	19%
Stanwood	Yes	6%
Steilacoom	Yes	6%
Tacoma	Yes	8%
Toppenish	Yes	15%
Tumwater	Yes	6%
University Place	Yes	6%
Walla Walla	Yes	10%

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ORDINANCE NO. 367

AN ORDINANCE OF THE CITY OF SHORELINE, WASHINGTON, ESTABLISHING A UTILITY TAX ON THE CITY STORMWATER UTILITY, AND AMENDING SHORELINE MUNICIPAL CODE 3.32.020

WHEREAS, state law defines sewerage systems as systems including combined sanitary sewage disposal and storm or surface water drains and facilities, as well as storm or surface water drains, channels, and facilities, but the city's existing utility tax is not assessed against stormwater utilities that are not combined sewerage operations;

WHEREAS, the City Council has determined that the public interest is best served by the application of the City's 6% utility tax on sewerage operations to stormwater utility operations to offset limitations on property taxes that create revenues increases below the rate of inflation for city expenses;

NOW, THEREFORE THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON, DO ORDAIN AS FOLLOWS:

Section 1. Amendment. Shoreline Municipal Code section 3.32.020 I is amended to read as follows:

3.32.020 Definitions. As used in this ordinance, unless the context or subject matter clearly requires otherwise, the words or phrases defined in this section shall have the indicated meanings.

...

I. "Sewerage Operation" means operation of sanitary sewer facilities, including collection, treatment and disposal facilities, ~~and operation~~ of combined sanitary and surface water drains and outfalls, ~~and operation of storm or surface water drains, channels, and facilities.~~

Section 2. Referendum. This ordinance shall be subject to the referendum procedure of RCW 35.21.706. A referendum petition may be filed within seven days of passage with the City Clerk to obtain a ballot title, final form and identification number in cooperation with the City Attorney and the petitioner. After issuance of the final petition by the Clerk, the petitioner shall have thirty days to secure signatures of not less than fifteen percent of the registered voters of the City of Shoreline as of the last municipal general election on the petition forms and file with the City Clerk. This procedure shall supersede SMC Ch. 1.12 and all statutes for referendum which might apply.

Section 12. Effective Date. A summary of this ordinance consisting of its title shall be published in the official newspaper of the City. This ordinance shall take effect and be in full force on January 1, 2005, provided, however, if a referendum petition is filed pursuant to Section

11 of this ordinance, the ordinance shall be suspended until either a deadline imposed under Section 11 is not met or there is a vote on the referendum.

PASSED BY THE CITY COUNCIL ON NOVEMBER 22, 2005.

Mayor Ronald B. Hansen

ATTEST:

APPROVED AS TO FORM:

Sharon Mattioli
City Clerk

Ian Sievers
City Attorney

Date of Publication: November 29, 2004

Effective Date: January 1, 2005