

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Public Hearing on 2017 Proposed Budget with Special Emphasis on Property Tax and Other Revenues and Discussion of Ordinance No. 759, Setting the 2017 Regular and Excess Property Tax Levies
DEPARTMENT:	City Manager's Office Administrative Services Division
PRESENTED BY:	Sara Lane, Administrative Services Director Rick Kirkwood, Budget Supervisor
ACTION:	<input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution <input type="checkbox"/> Motion <input checked="" type="checkbox"/> Discussion <input checked="" type="checkbox"/> Public Hearing

PROBLEM/ISSUE STATEMENT:

The City Manager presented the 2017 Proposed Budget to the City Council on October 10, 2016. Department budget presentations were provided on October 17 and October 24. A presentation of the proposed 2017-2022 Capital Improvement Plan (CIP) was also made on October 24. A public hearing on the 2017 Proposed Budget and 2017-2022 CIP was held on November 7. This staff report highlights revenue sources, including the regular and excess property tax levies. Tonight the City Council will hold a public hearing with special emphasis on revenue sources, including the regular and excess property tax levies. Adoption of the 2017 property tax levy, budget, and CIP are scheduled for November 21.

FINANCIAL IMPACT:

The City's 2017 Proposed Budget as presented to the City Council on October 10 was balanced in all funds with appropriations totaling \$86.352 million and resources totaling \$87.615 million; however, the impact of the change to the 2017 Fee Schedule for the Surface Water Utility recommended by staff, discussed later in this staff report, requires an amendment to both the appropriations and resources for the Surface Water Utility Fund. The 2017 Proposed Budget as amended is balanced with appropriations totaling \$86.204 million and resources totaling \$87.319 million. The General Fund's resources total \$47.203 million with general operating revenues totaling \$39.561 million. General operating revenues are comprised of: property tax (31.7%; \$12.531 million); sales tax (20.1%; \$7.970 million); utility taxes, franchise fees and utility contract payments (22.0%; \$8.727 million); licenses, fees and charges (9.0%; \$3.543 million); and, the remainder (intergovernmental revenue, interest income, gambling tax, local criminal justice sales tax, and miscellaneous revenue) (17.2%; \$6.790 million).

RECOMMENDATION

Staff recommends that the City Council conduct the public hearing to take public comment on the 2017 Proposed Budget, 2017 regular and excess property tax levies, and proposed 2017 revenues.

Approved By: City Manager **DT** City Attorney **MK**

DISCUSSION

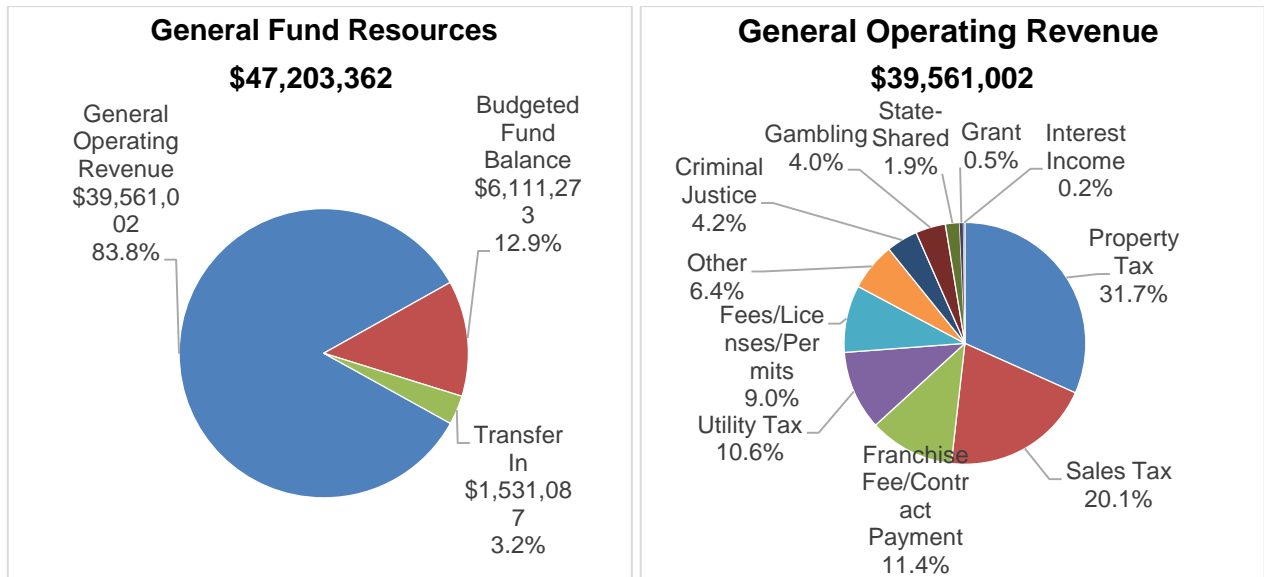
The City collects a variety of revenues to support ongoing City services. State law requires the City Council to hold a public hearing on revenue sources for the upcoming year's budget. The hearing must include consideration of property tax revenues and must be held before the ordinance setting the 2017 regular and excess property tax levies is adopted and submitted to King County. The City of Shoreline is required to adopt that ordinance and certify the amount to the County Assessor by December 5, 2016.

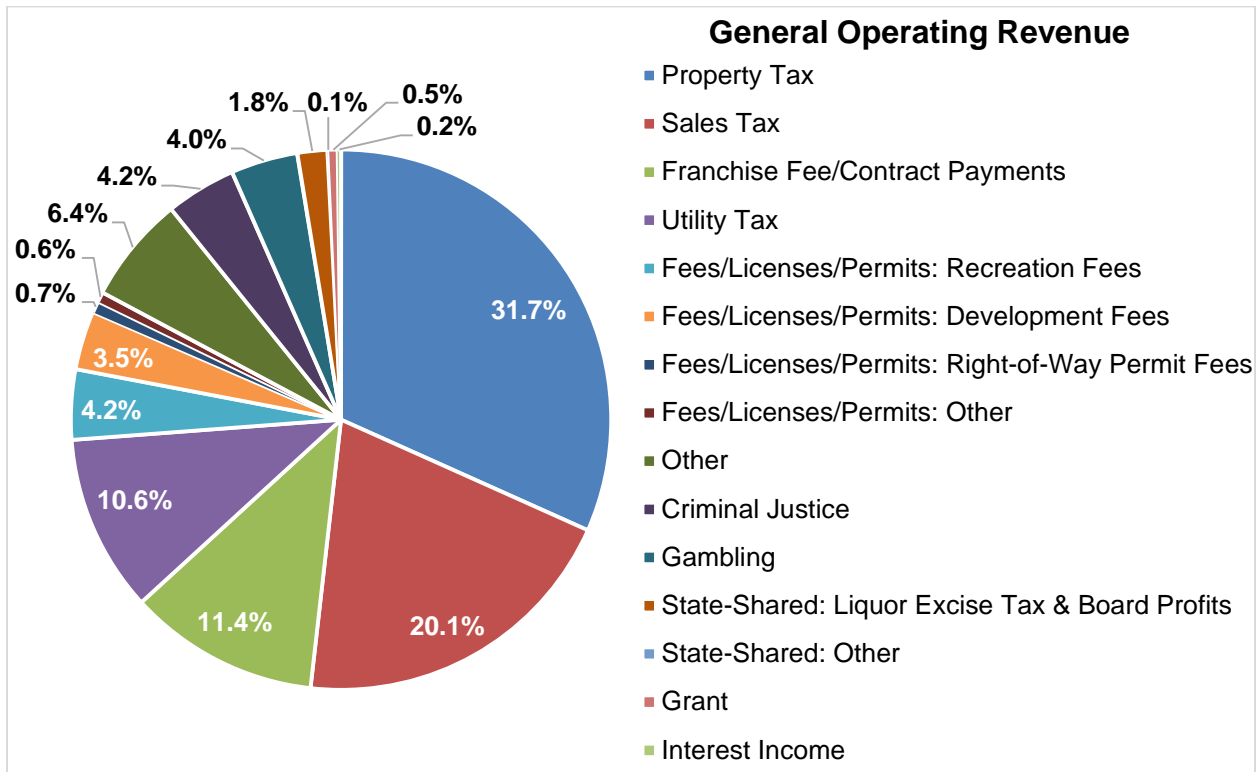
The revenue sources used to fund the City's budget are explained in detail on pages 72 through 86 of the 2017 Proposed Budget and 2017-2022 Capital Improvement Plan book. The following discussion provides detail on the City's major revenue sources.

General Fund Revenues

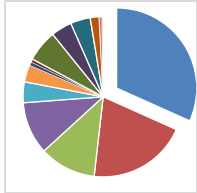
The General Fund resource base is \$47.203 million and is comprised of general operating revenues (\$39.561 million, 83.8%), the budgeted use of fund balance (\$6.111 million, 12.9%), and transfers-in (\$1.531 million, 3.2%) from other funds for their share of the General Fund overhead (\$1.030 million) and a transfer from the Property Tax Equalization Fund (\$0.501 million).

For the purposes of this discussion, general operating revenues will be discussed by category as shown in the chart on the right below. Some of these categories are further broken out in the section below and are also discussed on pages 73 through 83 of the 2017 Proposed Budget and 2017-2022 CIP book.





Regular Property Tax

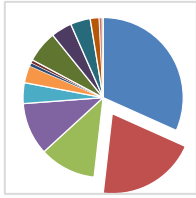


Revenues from property tax are budgeted at 100.0% of the projected property tax levy (\$12.531 million). The projected total collection is an increase of \$1.623 million, or 14.9%, over the current 2016 budget. This revenue accounts for 31.7% of General Fund operating revenues and is discussed in more detail in the 2017 Proposed Budget and 2017-2022 CIP book on pages 73 and 74.

It is important to note that this staff report has been issued to the City Council prior to the general election on November 8. The draft ordinance (Attachment A) assumes the passage of Shoreline Proposition 1 on November 8, and as such assumes that the levy rate will be reset to \$1.39 per \$1,000 assessed valuation (AV). The final AV determined by the King County Department of Assessments will determine the final levy amount.

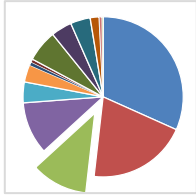
Property tax levy increases by local governments are limited to the lower of the Implicit Price Deflator (IPD) or 101% without voter approval. The Revised Code of Washington (RCW) Chapter 84.55.005 and Washington Administrative Code (WAC) Section 458-19-005 provide the limit factors and process which the City must follow in adopting its property tax levy. For cities with a population of 10,000 or greater the limit factor is the lesser of 100 percent plus inflation, as measured by the IPD, or 101 percent of the previous year's levy. For a city with a population of 10,000 or greater having made a finding of substantial need; the limit factor is the lesser of 101 percent or the limit factor contained in the ordinance of substantial need. The July Implicit Price Deflator (IPD) was 0.953%. Therefore, if Shoreline Proposition 1 is not approved by voters, the City Council would be required to adopt a 2017 property tax levy limited to an increase of 0.953% from the 2016 levy plus new construction and refunds, unless the City Council adopts an ordinance that declares a finding of substantial need which would allow for a levy increase of 1.0% plus new construction and refunds.

Sales Tax



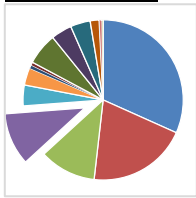
Revenues from sales tax (\$7.970 million) reflect increases from the 2016 budget and 2016 revised projection of \$0.222 million, or 2.9%, and \$0.112 million, or 1.4%, respectively. This revenue accounts for 20.1% of General Fund operating revenues and is discussed in more detail in the 2017 Proposed Budget and 2017-2022 CIP book on page 75.

Franchise Fee/Contract Payments



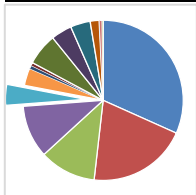
The City has entered into agreements with the many public utilities that provide services to Shoreline residents. Agreements are in place with Seattle City Light, Seattle Public Utilities (Water), the North City Water District, and the Ronald Wastewater District. All of these utilities pay either a contract fee or franchise fee to the City in an amount equal to six percent (6.0%) of their revenues generated in Shoreline. The City also receives a 5.0% franchise fee from the cable television providers in Shoreline. Projected revenue from these sources totals \$4.522 million and reflects a 3.5% increase from 2016 projected collections. This revenue accounts for 11.4% of General Fund operating revenues and is discussed in more detail in the 2017 Proposed Budget and 2017-2022 CIP book on page 78.

Utility Tax



The City collects a 6.0% utility tax on natural gas, telephone services, sanitation services, cable television, and storm drainage. Projected revenue from these sources totals \$4.205 million and reflects a 4.1% increase from 2016 projected collections. This revenue accounts for 10.6% of General Fund operating revenues and is discussed in more detail in the 2017 Proposed Budget and 2017-2022 CIP book on page 77.

Fees/Licenses/Permits: Recreation Fees



Fees are charged for participation in recreational classes and activities; swimming lessons and pool admissions; athletic field, recreation center, picnic shelter and Spartan Gym rentals; indoor and summer playground programs; and, teen trips and classes. In 2015, the Parks, Recreation and Cultural Services department developed a Cost Recovery and Fee Setting Framework (available online at:

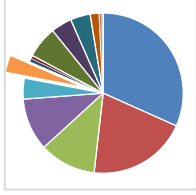
<http://shorelinewa.gov/government/departments/parks-recreation-cultural-services/boards/parks-recreation-and-cultural-services-tree-board>).

A key element of the Framework is assigning programs and services categories to a cost recovery guideline range based on how much it benefits general community goals versus benefits to an individual. Fees for programs and services have been reviewed using these guidelines and the outcome has been incorporated into the 2017 Fee Schedule.

Projected revenue from parks and recreation fees total \$1.656 million and reflects a 12.7% increase from 2016 projected collections as activity at the Shoreline Pool returns for a full year. Revenue from general recreation activities is projected to increase by 2.2%. Revenue from facility rentals is expected to decrease by 6.0% largely due to the closure of Twin Ponds soccer fields for three months while maintenance is being performed. Teen Program revenue is expected to remain equal to the 2016 projection. These revenues

account for 4.2% of General Fund operating revenues and are discussed in more detail in the 2017 Proposed Budget and 2017-2022 CIP book on page 79.

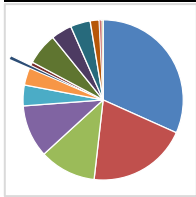
Fees/Licenses/Permits: Development Fees



Fees are charged for a variety of development permits, inspections and reviews obtained through the City’s Planning and Community Development department. These include building, structure, plumbing, electrical, and mechanical permits; land use permits; permit inspection fees; plan check fees; and fees for environmental reviews. The City completed a Cost of Service and Cost Recovery evaluation of the permitting and inspection fee revenues in 2016. Staff presented recommendations on proposed permitting cost recovery objectives on April 25, 2016 (staff report available here:

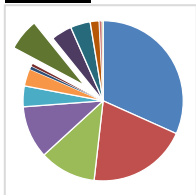
<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2016/staffreport042516-8b.pdf>) and those recommendations have been incorporated in the 2017 Fee Schedule and revenue projections. As a result, development revenues are expected to increase over the 2016 budget by \$218,000, or 15.1%. These revenues account for 3.5% of General Fund operating revenues and are discussed in more detail in the 2017 Proposed Budget and 2017-2022 CIP book on pages 82 through 83.

Fees/Licenses/Permits: Right-of-Way Permit Fees



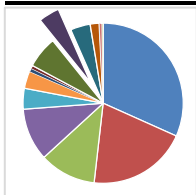
Fees are charged for the use of the City’s right-of-way and offsets the cost of providing right-of-way inspection services. This revenue source is affected by the level of construction activity occurring within the City. Collections vary from year-to-year based on the level of activity. Projected revenue totals \$0.290 million, accounts for 0.7% of General Fund operating revenues, and is discussed in more detail in the 2017 Proposed Budget and 2017-2022 CIP book on page 83.

Other



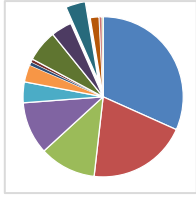
Revenues that do not fall into a general operating revenue category such as those discussed in detail in this staff report and the 2017 Proposed Budget and 2017-2022 CIP book are combined into the “Other” category. Significant revenues included in this category are those from the: Shoreline School District’s share of the School Resource Officer, DUI car impound fee, traffic infraction refund, Highland Park Center lease, Surface Water Utility for North Maintenance Facility rent, cell tower lease revenue, contribution from the solid waste provider, reimbursement from Ronald Wastewater District for its share of implementing CityWorks, and reimbursement from Sound Transit per the Expedited Permitting and Reimbursement Agreement approved by the City Council on July 25, 2016. These revenues account for 6.4% of General Fund operating revenues.

Criminal Justice Sales Tax



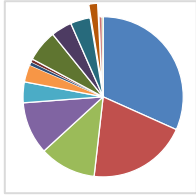
There are two sources of dedicated funding for local criminal justice programs: an optional County sales tax of 0.1% and state shared funding. Projected revenue from these sources totals \$1.650 million and reflects a 2.9% increase from 2016 projected collections. County-wide sales tax receipts continue to grow as the region recovers from the recession. This revenue accounts for 4.2% of General Fund operating revenues and is discussed in more detail in the 2017 Proposed Budget and 2017-2022 book on page 80.

Gambling Tax



Three gambling establishments that operated card rooms have ceased operations in the last six years. The remaining three are still in operation and the level of annual card room gross receipts appear to be holding somewhat steady at approximately \$14.5 million, which is taxed at a rate of 10%. For this reason, a baseline of \$1.587 million and no growth from 2016 is assumed. Projected revenue totals \$1.587 million, accounts for 4.0% of General Fund operating revenues, and is discussed in more detail in the 2017 Proposed Budget and 2017-2022 CIP book on page 76.

State-Shared: Liquor Excise Tax & Board Profits



Revenue sources in this category are comprised of a portion of the liquor excise tax receipts collected by the State and a portion of the markups on liquor, commonly referred to as Liquor Board Profits. Projected revenue totals \$0.721 million, which reflects an increase of 1.7% as compared to 2016 projected collections. This revenue accounts for 1.8% of General Fund operating revenues and is discussed in more detail in the 2017

Proposed Budget and 2017-2022 CIP book on page 81.

Street Fund Revenues

The major source of revenue for the City's Street Fund is a state collected gasoline and diesel fuel tax, which is shared with cities and towns on a per capita basis. These revenues are used for street repairs and maintenance but do not provide sufficient funding for the City's needs. As a result the General Fund will provide a \$0.244 million subsidy to this fund.

Fuel Tax

Fuel taxes are assessed as cents per gallon; therefore, fuel tax revenue depends on the number of gallons sold, not the dollar value of the sales. The 2015 legislative session produced a transportation package that was adopted in 2nd ESSB 5987, laws of 2015, 3rd sp. Session. The result of this legislation is an increase in the motor vehicle fuel tax of 11.9 cents with the first increase in place as of August 1, 2016 and the second as of July 1, 2016. Projected revenue totals \$1.254 million, which reflects an increase of 1.8% as compared to 2016 projected collections. This source is discussed in more detail in the 2017 Proposed Budget and 2017-2022 CIP book on page 84.

General Obligation Bond Fund

Excess Property Tax (Bond) Levy

Shoreline voters approved an excess levy in 2006 to fund parks improvements and the purchase of open space. The 2017 bond debt service levy is \$1.7 million. The final AV determined by the King County Department of Assessments will determine the final levy rate.

Surface Water Utility Fund

The 2017 budget accounts for the surface water utility operations in a Surface Water Utility Fund. This complex utility fund includes revenue from storm drainage utility fees, debt

financing, grants, and investment interest. It serves in both an operating and capital capacity and operates much like a private business.

Surface Water Utility Fee

The City contracts with King County to collect the Surface Water Utility fees via the annual property tax assessments. The change to the Surface Water Utility Fee Schedule recommended by staff to reinstate the Education Fee Credit (EFC) program for public schools reduces the projected revenues for the Surface Water Utility Fund by \$0.296 million to \$4.245 million. Revenues, as amended, would reflect an increase of 6.0% as compared to 2016 projected collections. This accounts for a portion of the year-over-year increase in collections with the balance resulting from the elimination of the commercial / private stormwater credit program and reinstatement of the EFC program for public schools. Surface Water Utility fees are proposed to increase by 5.0%. This source is discussed in more detail in the 2017 Proposed Budget and 2017-2022 CIP book on page 85.

Capital Improvement Program (CIP) Revenues

Capital projects are funded from a variety of revenue sources including: real estate excise tax, fuel tax, grants, debt financing, investment earnings and funds that the City has set aside for capital projects.

Vehicle License Fee

On July 13, 2009 a \$20 local license fee was established by the Shoreline Transportation Benefit District (TBD) Board of Directors. The TBD was assumed by the City of Shoreline through City Council action (Ordinance No. 726). This revenue is now accounted for within the Roads Capital Fund and provides funding for the Annual Road Surface Maintenance Program.

In 2017 staff will continue to explore the remaining strategies from the 10 Year Financial Sustainability Plan including the replacement of the ongoing General Fund contribution to the Roads Capital Fund with a dedicated revenue source. One potential option to replace this high priority funding is the use of a portion of the additional \$20 vehicle license fee that is available to the City. Staff estimates that an additional \$6 vehicle license fee would be adequate to replace this critical support. The remaining \$14 could be used for other purposes such as replacing Transportation Impact Fee exemption revenues or increasing funding for the annual sidewalk maintenance program.

Real Estate Excise Tax (REET)

All real estate property sales in the county are taxed at a rate of 1.28%. A portion of these revenues, equal to a 0.5% tax rate, is distributed to the cities by King County on a monthly basis. The use of REET funds is restricted by State law. The first 0.25% of the REET tax rate must be spent on capital projects listed in the City's Comprehensive Plan. These projects could include local capital improvements, including streets, parks, pools, municipal buildings, etc. The second 0.25% of the REET tax rate must be spent on public works projects for planning, acquisition, construction, reconstruction, repair, replacement, or improvement of streets, roads, highways, sidewalks, street lighting, etc. Projected revenue totals \$2.392 million, which reflects an increase of 3.1% as compared to 2016 projected collections. The sales value has increased steadily and the number of transactions continues to grow. For comparison, REET revenue collections were below the peak of

\$2.676 million in 2005 until a new peak was reached in 2015 of \$2.936 million. This source is discussed in more detail in the 2017 Proposed Budget and 2017-2022 CIP book on page 86.

Capital Grants

In 2017, Shoreline is projected to receive \$10.385 million in grant funding from federal, state and local sources to fund a variety of capital projects. The majority of these grants are related to the federal Surface Transportation Funding for several Roads Capital Fund projects, including: Annual Road Surface Maintenance, Aurora Corridor Improvement Project, 145th Corridor Design and Environmental Review – Aurora to I-5, Bike System Implementation, N 175th St – Stone Ave N to I-5, and 145th and I-5 Interchange Design and Environmental Review. Grants are applied for and received for specific capital improvements. The amount of capital grants received in any given year can vary greatly depending on the number of projects, their cost, and the amount of grant funding available. In many cases Shoreline competes with other cities for these revenues and grant awards may go to other cities. For more details, see the Capital Improvement Plan section of the 2017 Proposed Budget and 2017-2022 CIP book on pages 265 through 403.

FINANCIAL IMPACT

The City's 2017 Proposed Budget as presented to the City Council on October 10 is balanced in all funds with appropriations totaling \$86.352 million and resources totaling \$87.615 million; however, the impact of the change to the 2017 Fee Schedule for the Surface Water Utility recommended by staff will require an amendment to both the appropriations and resources for the Surface Water Utility Fund. The 2017 Proposed Budget as amended would also be balanced with appropriations totaling \$86.204 million and resources totaling \$87.319 million. The General Fund's resources total \$47.203 million with general operating revenues totaling \$39.561 million. General operating revenues are comprised of: property tax (31.7%; \$12.531 million); sales tax (20.1%; \$7.970 million); utility taxes, franchise fees and utility contract payments (22.0%; \$8.727 million); licenses, fees and charges (9.0%; \$3.543 million); and, the remainder (intergovernmental revenue, interest income, gambling tax, local criminal justice sales tax, and miscellaneous revenue) (17.2%; \$6.790 million).

RECOMMENDATION

Staff recommends that Council conduct the public hearing to take public comment on the 2017 Proposed Budget, 2017 property tax levy, and proposed 2017 revenues.

ATTACHMENTS

Attachment A: Proposed Ordinance No. 759 - Setting the 2017 Regular and Excess Property Tax Levies

ORDINANCE NO. 759

AN ORDINANCE OF THE CITY OF SHORELINE, WASHINGTON LEVYING THE GENERAL TAXES FOR THE CITY OF SHORELINE IN KING COUNTY FOR THE FISCAL YEAR COMMENCING JANUARY 1, 2017, ON ALL PROPERTY BOTH REAL AND PERSONAL, IN SAID CITY, WHICH IS SUBJECT TO TAXATION FOR THE PURPOSE OF PAYING SUFFICIENT REVENUE TO CONDUCT CITY BUSINESS FOR THE SAID FISCAL YEAR AS REQUIRED BY LAW, AND LEVYING AN EXCESS LEVY FOR THE REPAYMENT OF UNLIMITED GENERAL OBLIGATION BONDS

WHEREAS, the City Council of the City of Shoreline has considered the City's anticipated financial requirements for 2017 and the amounts necessary and available to be raised by ad valorem taxes on real, personal, and utility property; and

WHEREAS, the City Council has properly given notice of the public hearing held November 14, 2016 to consider the revenue sources for the City's current expense budget for the 2017 calendar year, pursuant to RCW 84.55.120; and

WHEREAS, the citizens of the City of Shoreline approved Shoreline Proposition 1 on November 8, 2016 which set the 2017 regular property tax levy rate at \$1.39 per \$1,000 of assessed valuation; and

WHEREAS, the voters of the City of Shoreline approved the issuance of \$18,795,000 in unlimited general obligation bonds on May 16, 2006; and

WHEREAS, the City issued the bonds on December 13, 2006, and began making debt service payments on the bonds in June of 2007;

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

Section 1. Regular Property Tax Levy. The property tax rate for 2017 shall be \$1.39 per \$1,000 of assessed valuation as included in Shoreline Proposition 1, which was approved by voters on November 8, 2016.

Section 2. Re-levy for Prior Year Refunds. The City shall re-levy for prior year refunds in the amount of \$10,045.00 as allowed under RCW 84.69.020.

Section 3. Voter-Approved Excess Tax Levy for Unlimited General Obligation Bonds. In addition, a further tax is hereby levied to raise revenue to provide for the interest and redemption of voter-approved general obligation bonds for the fiscal year of 2017 in the amount of \$1,700,000.00. This tax is applicable to all taxable property within the City of Shoreline.

Section 4. Notice to King County. This ordinance shall be certified to the proper County officials, as provided by law, and taxes herein levied shall be collected to pay to the

Administrative Services Department of the City of Shoreline at the time and in the manner provided by the laws of the State of Washington for the collection of taxes for non-charter code cities.

Section 5. Effective Date. This ordinance shall be in full force five days after publication of this ordinance, or a summary consisting of its title, in the official newspaper of the City, as provided by law.

Section 6. Severability. Should any section, paragraph, sentence, clause or phrase of this ordinance, or its application to any person or circumstance, be declared unconstitutional or otherwise invalid for any reason, or should any portion of this Ordinance be preempted by State or Federal law or regulation, such decision or preemption shall not affect the validity of the remaining portions of this ordinance or its application to other persons or circumstances.

ADOPTED BY THE CITY COUNCIL ON NOVEMBER 21, 2016.

Christopher Roberts, Mayor

ATTEST:

APPROVED AS TO FORM:

Jessica Simulcik-Smith
City Clerk

Margaret King
City Attorney

Date of Publication: , 2016
Effective Date: , 2017