

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: Ordinance No. 464 Increasing the Cable Utility Tax to 6% of Gross Receipts and a Motion Authorizing the City Manager to Notify Seattle City Light of the City's Intent to Apply a 3% Contract Payment to the Distribution Portion of Electric Revenues Effective April 1, 2008, and an Additional 3% Effective January 1, 2009.

DEPARTMENT: Finance

PRESENTED BY: Debbie Tarry, Finance Director

PROBLEM/ISSUE STATEMENT:

Based on current assumptions, the City's long-term financial projections show that there will be budget gaps starting in 2008. The City's financial policies require that annual operating budgets be balanced between on-going revenues and expenditures. The City Council and staff have been monitoring the long-term projections for several years and have taken steps to maintain balanced operating budgets through service efficiencies and base budget reductions. These steps have resulted in a very lean, yet effective budget to provide on-going government services.

In order for the City to continue to provide the same level of services in the future, as is funded in the 2007 budget, additional resources will need to be approved. If additional resources are not approved then the City will need to reduce services through the reduction of City programs.

Two "short-term" resource options (2008-2009) that were discussed with the City Council during the long-term financial strategy retreat on January 29, 2007 and during the Council meeting on March 5, 2007, are an increase in the cable utility tax from 1% to 6% and a 6% contract payment on the distribution portion of the Seattle City Light (SCL) electric revenues.

Ordinance No. 464 (Attachment A) will raise the cable utility tax from 1% to 6% effective July 1, 2007.

The City's Franchise Agreement with Seattle City Light (SCL) requires one year written notification to SCL of the City's intent to collect a contract payment on the distribution portion of electric revenues. Staff is requesting that the Council authorize the City Manager to notify SCL of the City's intent to collect a 3% contract payment on distribution revenues effective April 1, 2008, and an additional 3% contract payment, for a total of 6%, effective January 1, 2009.

A public hearing is being held on March 19, 2007, to formally receive public comment on the proposed increase in cable utility tax and implementation of a contract payment

on the distribution portion of electric revenues. This hearing will be held after the issuance of this staff report.

FINANCIAL IMPACT:

A five percent increase in the cable utility tax would generate approximately \$500,000 in annual revenue. The average residential monthly cable fee is \$57. Implementing an additional 5% of utility tax would cost the average residential customer approximately \$2.83 monthly, or \$34 annually.

It is estimated that a 6% contract payment on the distribution portion of SCL rates would generate approximately \$550,000 of revenue annually. Assuming an average residential electric charge of \$70 per month, the implementation of the 6% contract payment on the distribution portion of the charge would increase the rate payer's overall bill by approximately \$1.35 per month or slightly more than \$16 per year. Since the full 6% rate would not be in effect until 2009 the rate payer would have an impact of half this amount, \$0.67 per month or slightly more than \$8 annually in 2008.

The City's most recent update to the 2007-2012 long-term financial projections show the following budget gaps for 2008-2012:

Expenditure Assumption	Operating Fund Projections					
	2007-2008		100%	Others	99%	
	Base Projections					
	2007	2008	2009	2010	2011	2012
Annual Revenues	28,360,125	28,905,523	29,995,972	30,481,365	31,027,130	31,696,699
Annual Expenditures	28,360,126	29,667,329	31,131,885	32,358,554	33,911,172	35,238,606
Annual (Budget Gap)/Surplus	(0)	(761,806)	(1,135,913)	(1,877,189)	(2,884,042)	(3,541,908)

In order to close the projected gaps the City needs to identify approximately \$1.2 million in additional revenue sources, expenditures reductions, or a combination of these, for 2008-2009.

The following short-term (2008-2009) solution is recommended by staff:

Proposed Item	2007	2008	2009
Base Budget Changes	\$ 39,000	\$ 125,000	\$ 125,000
Cable Utility Tax*	250,000	500,000	512,844
SCL Distribution Contract Fee**	-	206,250	550,000
Enhanced Human Service (utility assistance) Contribution	-	(25,000)	(25,000)
Net Budget Change	\$ 289,000	\$ 806,250	\$ 1,162,844
Projected Budget Gap	\$ -	\$ (761,805)	\$ (1,135,913)
Budget Change Over (Under) Projected Gap	\$ 289,000	\$ 44,445	\$ 26,931
*Effective Date 7/1/07			
**Effective Date 3% on 4/1/08 and 6% on 1/1/09			

RECOMMENDATION

Staff recommends that Council take the following actions:

1. Adopt Ordinance No. 464 increasing the cable utility tax to 6% of gross receipts and amending Shoreline Municipal Code 3.32.030.
2. Adopt a motion to authorize the City Manager to notify Seattle City Light that the City intends to collect a 3% contract payment on the distribution portion of electric revenues effective April 1, 2008, and a 6% contract payment on the distribution portion of electric revenues effective January 1, 2009.

Approved By:

City Manager 

City Attorney Fpc

INTRODUCTION

The City's long-term financial projections indicate budget gaps starting in 2008 and continuing into future years. In order to continue providing the same level of essential services to the Shoreline community it will be necessary to implement new revenue sources. Staff has recommended that the Council authorize an increase in the cable utility tax rate from 1% to 6%. Also staff is recommending that the Council authorize the City Manager to notify Seattle City Light (SCL) of the City's intent to collect a contract fee on the distribution portion of electric revenues collected from Shoreline rate payers. In addition to this staff is recommending approximately \$78,000 in base budget reductions, to be effective mid-2007, and \$47,000 in revenue changes as a result of fee adjustments to facility rentals, adult recreation programs, and right-of-way permits in 2008.

BACKGROUND

The last few years the City has been able to close any projected gaps as a result of unexpected revenues (i.e., correction in how the water contract payment from Seattle Public Utilities was calculated), efficiencies and service delivery changes (e.g., jail contract with Yakima, change in employee health benefits, change in method for police canine services), or base budget reductions. As a result of these efforts the City's operating budget is very lean with very little contingency left within the annually adopted budget. Given this if the City is going to provide the same level of services on an on-going basis it is necessary to implement new revenue resources.

The Council has discussed on many occasions the six-year forecast and option to address projected budget gaps. During the Council's January 29, 2007, Long-Term Financial Strategy Retreat, and during the March 5, 2007, City Council Study-Session, the Council specifically discussed the causes of the projected gap and the various short-term and long-term solutions.

ALTERNATIVES ANALYSIS

During the Long-Term Financial Strategy Retreat on January 29, 2007, the City Council considered a number of ideas on how to close the projected future budget gaps. These included:

- Providing opportunities for both employees and citizens to identify ways that the City could gain efficiencies and therefore reduce on-going operating costs.
- Reducing the General Fund contribution to capital projects. Some Council members specifically did not want this reduction to reduce funding for the priority sidewalk program.
- Sponsoring budget town hall meetings
- Increase grant opportunities or use grants to off-set the reduction in capital contribution.
- Increase sponsorship revenues for community events such as Celebrate Shoreline and/or increase advertising revenues by allowing advertising on benches or backstops.
- Increase fees of revenue generating programs to reduce the tax subsidy of the programs

- Reductions to the existing budget in the areas of travel, memberships and dues, special events, and contributions to the arts and museum.
- Develop more intergovernmental partnerships that may reduce costs
- Implementation of a business registration program
- Increasing sales tax revenues through enhanced business retention and economic development efforts
- Implementing additional revenue sources such as cable utility tax and SCL contract payment on the distribution portion of the electric revenues
- Long-term consideration of a property tax levy lid lift.

There was general consensus among the Council that closing the gap strictly with expenditures reductions would not be the recommended option. This would result in the elimination of City services to the community. Based on the feedback the City has received from the budget and program prioritization workshops completed in 2004-2005, the Citizen's survey, and directly from constituents, it seems that most citizens do not want the City to eliminate existing programs. In fact in some areas there is pressure to increase service levels such as in police services, code abatement, sidewalk maintenance, street lighting, maintenance of City parks, human services and availability of walking and biking trails.

In examining the possibilities to close the projected budget gap for both the short-term and the long-term there was consensus to pursue the following:

Short-Term

- Increase the cable utility tax rate from 1% to 6%
- Implement the Seattle City Light distribution contract payment at 3% in 2008 and an additional 3% in 2009
- Reduce the General Fund contribution to capital
- Review the existing budget for any further cost savings
- Provide opportunities for employees and citizens to identify additional budget efficiencies
- Develop a citizen communication plan regarding the City's long-term financial strategy

Long-Term

- Pursue with a citizen committee the possibility of a levy lid lift (election in 2009)
- Implement the business registration program
- Review the possibility of impact fees

Implementing the Short-Term Strategy

Base Budget Changes (\$125,000)

Staff is recommending that Council consider \$125,000 in base operating budget reductions starting in mid 2007. This change would come from approximately \$78,000 in additional base budget reductions and \$47,000 in additional revenues from fee increases.

Base budget reductions will come from the following areas:

Expenditure Reductions

Lobbyist Services	5,000.00	
Parks Maintenance Extra-Help	10,000.00	
Contribution to Facility Long-Term Maintenance	40,000.00	
Travel, Registrations, Dues	13,000.00	
Police Overtime for Neighborhood Traffic Safety	10,000.00	
Total		78,000.00

This base budget reductions will become effective July 1, 2007.

Staff is also reviewing the City's fees and will be considering fee increases in the areas of adult recreation, facility rentals, and right-of-way fees for 2008. The proposed fee changes are projected to generate an additional \$47,000 in operational revenues.

Cable Utility Tax (\$500,000 annually)

The City currently levies a 1% utility tax on cable TV. The utility tax rate on cable TV is governed by the Cable Communications Policy Act of 1984. It requires that the utility rate not be "unduly discriminatory against cable operators and subscribers." Since the City has set all its utility tax rates at six percent, the rate on cable TV could go up to six percent also without being "unduly discriminatory." Although there is no required timeline to implement an increase in the cable utility tax, it is likely that it would take 60 to 90 days for the cable provider to bill all accounts at the increased utility tax rate.

A five percent increase in the cable utility tax would generate approximately \$500,000 in annual revenue. The average residential monthly cable fee is \$57. Implementing an additional 5% of utility tax would cost the average residential customer approximately \$2.83 monthly, or \$34 annually.

The City does collect a 5% franchise fee from the cable provider on total cable revenues. An increase in the utility tax rate would result in a slight increase in franchise fee revenue, approximately \$24,000 annually.

Adoption of Ordinance No. 464 will result in an increase in the City's cable utility tax rate from 1% to 6% effective July 1, 2007.

Seattle City Light Contract Payment on "Distribution" Portion of the Electricity Utility Rates (Full 6% implementation - \$550,000 annually)

The current franchise agreement between the City and Seattle City Light (SCL) provides that the City receive a 6% contract payment on the power portion of the electricity revenues, but not on the distribution portion. The franchise agreement does allow the City to collect a contract payment, up to 6%, on the distribution portion. In order to do this the City must give a one year notice to SCL. The franchise agreement allows SCL to collect a surcharge on the power portion of rates from our residents, implemented at the same time as the contract fee, but not the distribution portion. Based on recent data provided from SCL for 2001 through 2004, the distribution portion of the electric revenues collected within Shoreline represent 32% of total revenues. Assuming that this revenue allocation has remained constant for 2005 and 2006, it is estimated that a 6% contract payment on the distribution portion of SCL rates would generate approximately \$550,000 of revenue annually.

Assuming an average residential electric charge of \$70 per month, the implementation of the 6% contract payment on the distribution portion of the charge would increase the rate payer's overall bill by approximately \$1.35 per month or slightly more than \$16 per year. Since the full 6% rate would not be in effect until 2009 the rate payer would have an impact of half this amount, \$0.67 per month or slightly more than \$8 annually in 2008 for a household.

In 2004 the City of Tukwila implemented a contract payment on the distribution portion of the SCL revenues. Tukwila implemented the 6% payment over a three (3) year period.

Seattle City Light does provide reduced rates for low-income and elderly disabled residential rate payers. There are approximately 750 households within Shoreline that are participating in this program at this time. To qualify for the residential low-income rates the household annual income cannot exceed 200% of the poverty level for the number of individuals in the household. To qualify for the residential elderly or disabled rates the household income does not exceed 70% of the Washington State median income for the number of individuals in the household. The electric rates for ratepayers that qualify for these programs are 50% less than the regular rate for base charges and approximately 60% less for energy usage charges.

Shoreline also allows Shoreline residents that qualify for the SCL low-income to be exempt from the City's utility tax on natural gas and garbage. There are currently 150 households participating in this program.

Staff is recommending that as part of the implementation of contract payment on the distribution portion of SCL revenues, that the Council designate \$25,000 of the new revenue be used to enhance the City's human service funding to an agency that provides funds to help residents pay their utility bills. If authorized by the City Council, staff will work with an appropriate human service agency to implement this program.

The City's contract with SCL requires that the City give SCL one years notice to implement the contract payment on the distribution portion of the SCL revenues. Staff recommends that the Council vote by motion to authorize the City Manager to notify SCL of the City's intent to implement a 3% contract payment on distribution revenues effective March 1, 2008, and the full 6% effective January 1, 2009.

Citizen and Employee Input

Staff will continue to develop opportunities to provide information to the community on the City's budget and long-term financial strategy. This will include articles in Currents and information available on the City's web-site. In addition to this staff will develop additional opportunities for citizens to provide feedback on the City's budget that may include a community workshop, town hall meeting, and ways to communicate efficiency ideas from citizens.

Financial Strategy Summary

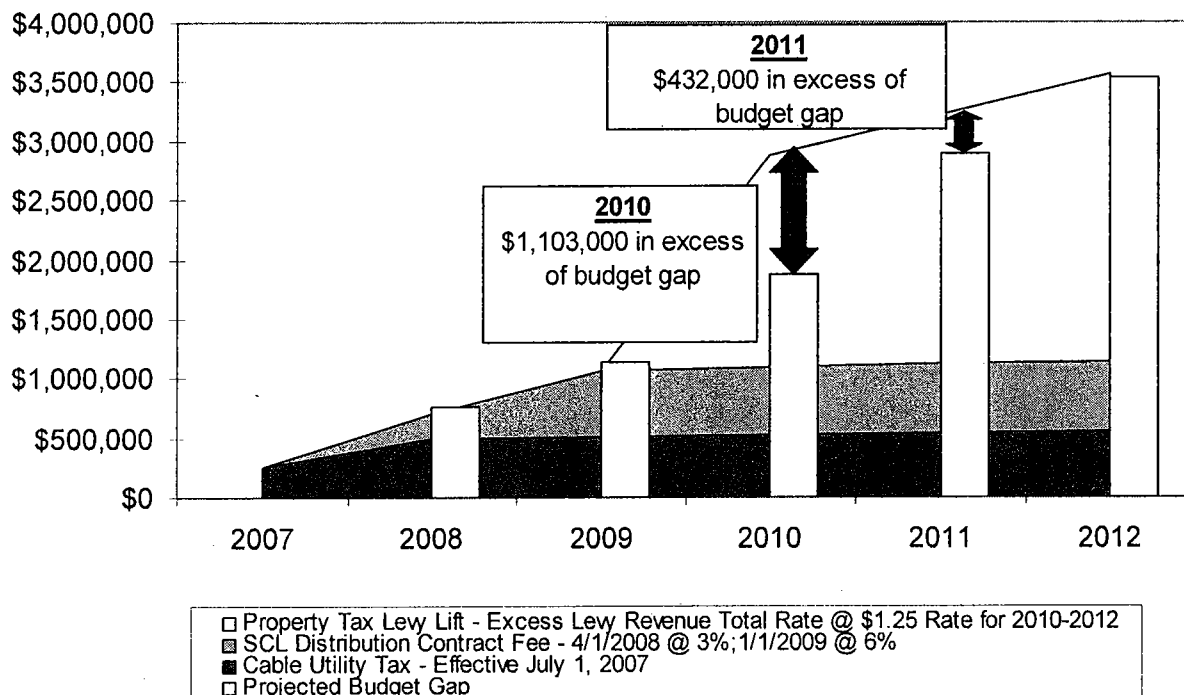
Over the last few years the City has been able to provide services and increase some service levels to the community as a result of finding service efficiencies and making

base budget reductions. In 2008 the City will not be able to continue providing the same level of services unless additional revenues are authorized. The City has monitored the long-term financial projections for several years and has anticipated that this would be necessary during this time period.

Fortunately the City Council has been prudent and the City has a variety of revenue sources that could be implemented to continue the provision of government services. As staff and Council have discussed the most likely options for the short-term (2008-2009) are an increase in the cable utility tax rate from 1% to 6% and the implementation of a 3% contract payment on the distribution portion electric revenues in 2008 and an additional 3% in 2009. In addition to this staff is recommending approximately \$125,000 in base budget changes as a result of both expenditure reductions and fee increases.

In the long-term (2010 and beyond) it is likely that an increase in the property tax levy will be necessary to maintain service levels.

The following chart compares projected budget gaps to the proposed short-term and long-term strategies.



Proposed Item	2007	2008	2009	2010	2011	2012
Base Budget Changes	\$39,000	\$125,000	\$125,000	\$125,000	\$125,000	\$125,000
Cable Utility Tax*	250,000	500,000	512,844	525,922	538,787	551,378
SCL Distribution Contract Fee**	0	206,250	550,000	564,026	577,801	591,325
Enhanced Human Service (utility assistance) Contribution	0	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)
Property Tax Levy Lid Lift Rate @ \$1.25 for 2010-2012	0	0	0	1,790,809	2,099,579	2,425,530
Net Budget Change	\$289,000	\$806,250	\$1,162,844	\$2,980,757	\$3,316,167	\$3,668,233

Projected Budget Gap	\$0	(\$761,805)	(\$1,135,913)	(\$1,877,189)	(\$2,884,042)	(\$3,541,908)
Budget Change Over (Under)						
Projected Gap	\$289,000	\$44,445	\$26,931	\$1,103,568	\$432,125	\$126,325
*Effective Date 7/1/07						
**Effective Date 3% on 4/1/08 and 6% on 1/1/09						

RECOMMENDATION

Staff recommends that Council take the following actions:

1. Adopt Ordinance No. 464 increasing the cable utility tax to 6% of gross receipts and amending Shoreline Municipal Code 3.32.030.
2. Adopt a motion to authorize the City Manager to notify Seattle City Light that the City intends to collect a 3% contract payment on the distribution portion of electric revenues effective April 1, 2008, and a 6% contract payment on the distribution portion of electric revenues effective January 1, 2009.

ATTACHMENTS

Attachment A – Ordinance No. 464, Increasing the Cable Utility Tax to 6% of Gross Receipts and Amending Shoreline Municipal Code 3.32.030

ORDINANCE NO. 464

AN ORDINANCE OF THE CITY OF SHORELINE, WASHINGTON, INCREASING THE CABLE UTILITY TAX TO 6% OF GROSS RECEIPTS AND AMENDING SHORELINE MUNICIPAL CODE 3.32.030

WHEREAS, the City's long-term financial projections indicate budget gaps starting in 2008, as expenditures exceed revenue growth; and

WHEREAS, in order to continue providing the same level of essential services to the Shoreline community it is necessary to implement new revenue sources; and

WHEREAS, the City currently assesses a 1% utility tax on cable television; and

WHEREAS, the Cable Communications Policy Act of 1984 requires that a city utility tax rate not be "unduly discriminatory against cable operators and subscribers"; and

WHEREAS, the City utility tax on all other utilities operating in Shoreline is 6%; and

WHEREAS, the City Council has determined that the public interest is best served by an increase of cable utility taxes from 1% to 6%, to close the projected short term and long term budget gaps and to retain the current levels of City services.

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

Section 1. Amendment. Shoreline Municipal Code 3.32.030, *Utility Occupation Activities Subject to Taxation*, is amended to read as follows:

Upon every person within the City in the following activities; as to such persons, the amount of the tax due with respect to such business in the city shall be equal to the gross income of the business, multiplied by the following applicable rates:

Activity	Tax Rate
A. Gas Distribution Business	6%
B. Telephone Business	6%
C. Cellular Telephone Service	6%
D. Cable Television Service	1% 6%
E. Solid Waste Collection Business	6%
F. Water Distribution Operation	6%
G. Sewerage Operation	6%
H. Paging Service	6%

Section 2. Publication , Effective Date. A summary of this ordinance consisting of its title shall be published in the official newspaper of the City. The ordinance shall take effect and be in full force July 1, 2007.

PASSED BY THE CITY COUNCIL ON MARCH 26, 2007.

Robert L. Ransom, Mayor

ATTEST:

APPROVED AS TO FORM:

Scott Passey
City Clerk

Ian Sievers
City Attorney

Date of Publication:
Effective Date: