

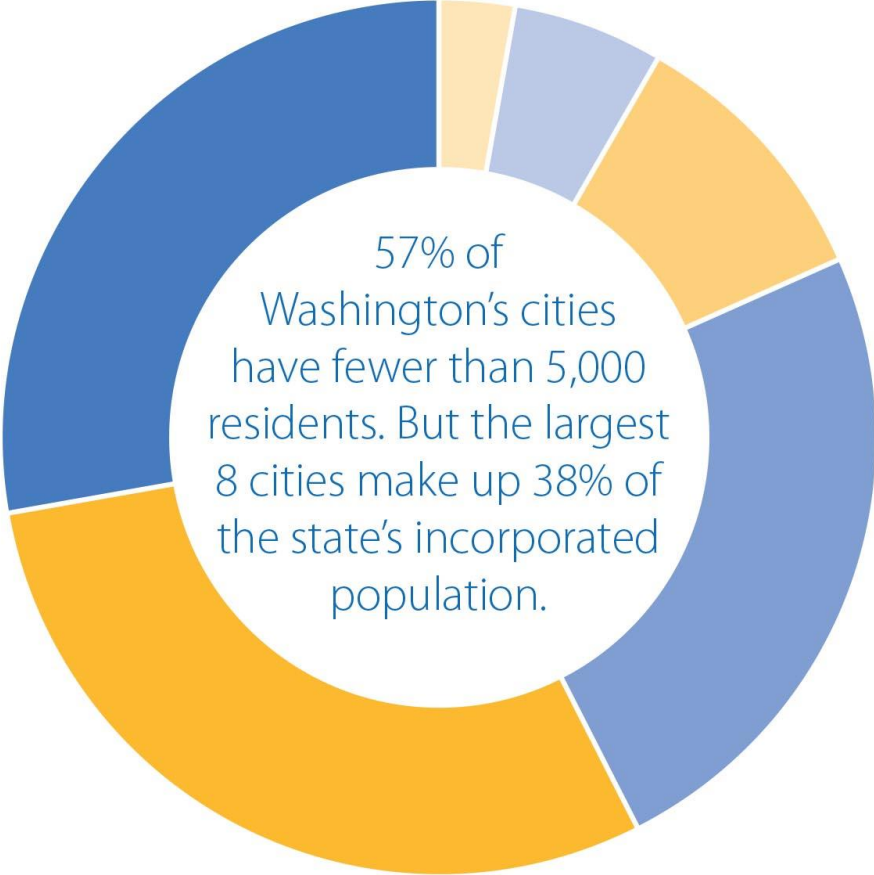
Tax Structure Work Group

City Revenues

Candice Bock, Government Relations Director

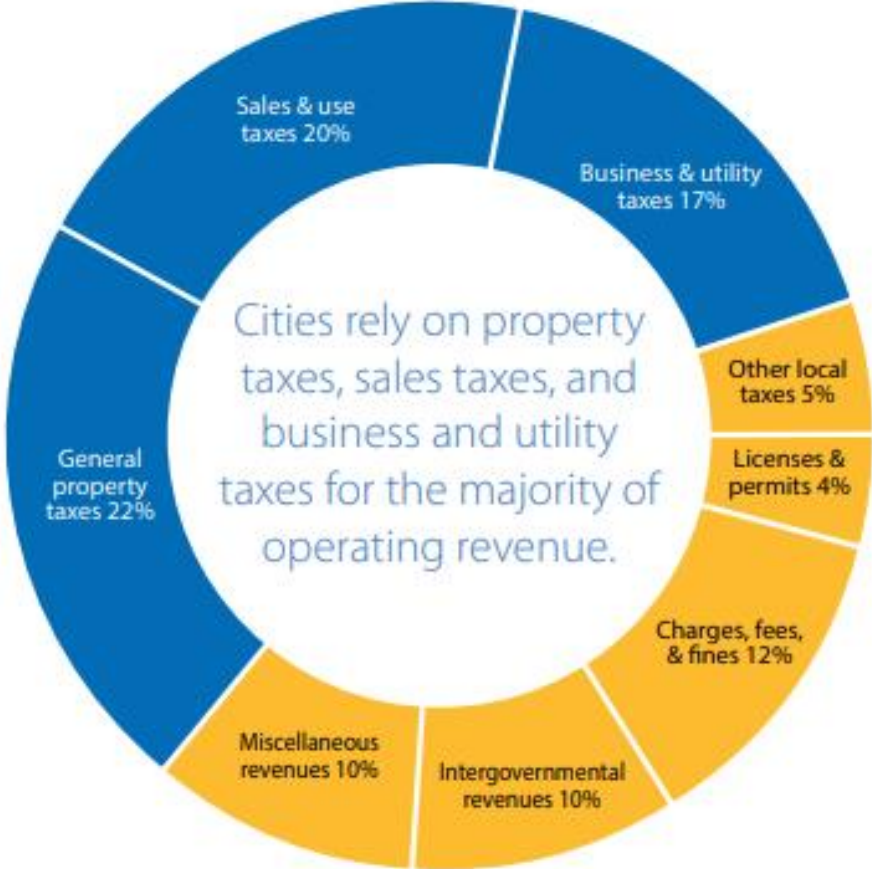


City population distribution



Population | Number of cit

- Over 100,000 | **8**
- 50,000 - 100,000 | **17**
- 20,000 - 50,000 | **30**
- 5,000 - 20,000 | **66**
- 1,000 - 5,000 | **83**
- Less than 1,000 | **77**



Source: State Auditor's Office; general fund, special revenues



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Population & General Fund Expenditures

- 59 cities with annual expenditures under \$500,000
- 40 cities with annual expenditures between \$500,000 - \$1 million
- 67 cities with annual expenditures between \$1 million - \$5 million
- 37 cities with annual expenditures between \$5 million - \$10 million
- 56 cities with annual expenditures between \$10 million - \$50 million
- 13 cities with annual expenditures between \$50 million - \$100 million
- 9 cities with annual expenditures over \$100 million

City Taxes	City Taxes
Admissions tax	Leasehold excise tax
Affordable housing property tax levy	Local sales and use tax
Ambulance services tax	Parking tax
B&O taxes	Local general fund property tax
Brokered natural gas tax	Real estate excise tax – 1 st qtr. & 2 nd qtr.
Chemical dependency/mental health services sales and use tax	Public Facilities District sales and use tax
Public safety sales and use tax	Transportation Benefit District sales tax
Gambling tax	Transportation Benefit District vehicle fee
Hotel/motel sales and use tax	Utility tax
Housing and related services sales and use tax	

Efficiency and stability of existing revenue tools

- **Efficiency:** minimizes market distortions (if a good/service is taxed, consumers will purchase or produce less of it)
- **Equity:** amount of tax someone pays increases with their ability to pay
- **Market responsiveness:** tax responds quickly to changes in broader economy (also referred to as elasticity)
- **Stability:** tax does not respond quickly to changes in the economy (also referred to as inelasticity)
- **Administrative costs:** the amount of time and resources tax requires to administer

	Property tax	Sales tax	Charges and fees
Efficiency	Green	Yellow	Green
Equity	Yellow	Red	Red
Market responsiveness	Red	Green	Yellow
Stability	Green	Red	Yellow
Administrative costs	Red	Green	Yellow

Property taxes

Property tax is the largest revenue source for cities in Washington State, comprising 22% of all city revenue.

- This revenue supports critical city services, including infrastructure and public safety.
- Compared to sales tax, which fluctuates with the economy, property tax is much more stable.

There are only temporary solutions to address structural budget deficits caused by the tax limit:

- One year or multi-year levy lid lifts (requires voter approval)
- Banked capacity
- PDC limitations on education/information provided during ballot measure elections

Property tax ballot measures

Results from 2020-2019

[MRSC Local Ballot Measure Database](#)

Bond measures (60% approval required)

10 measures – 7 passed, 2 failed

Excess levy measures (1 year increase)

24 measures – 22 passed, 2 failed

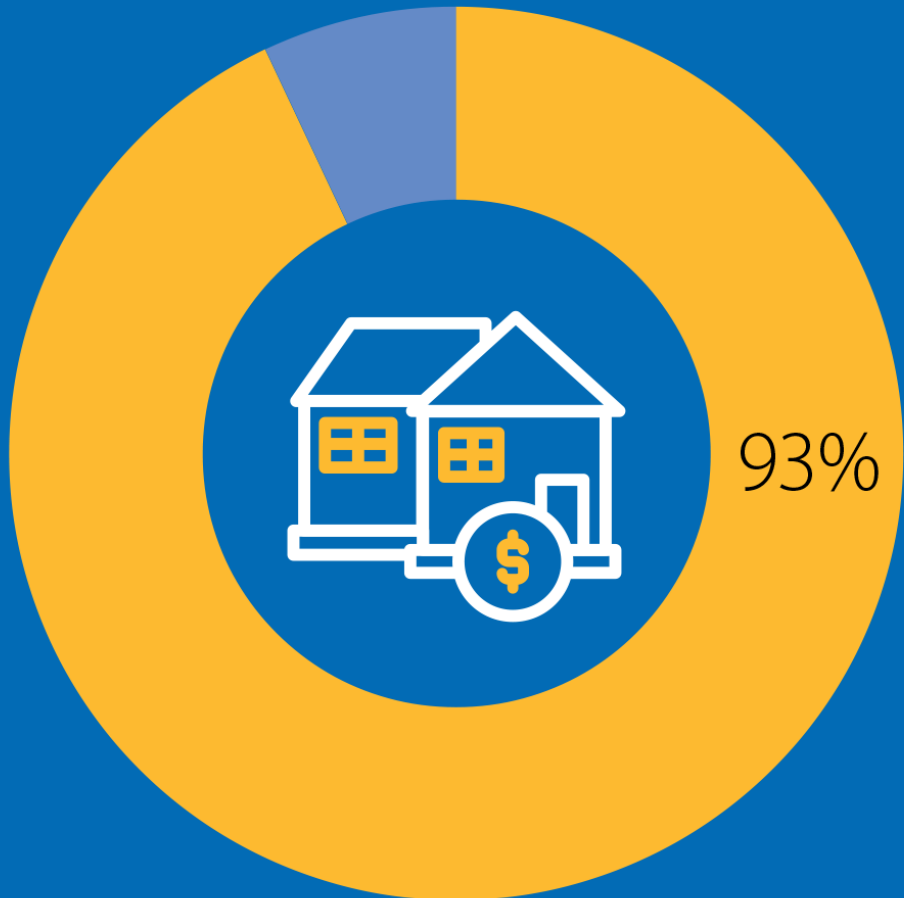
(All small or very small cities)

Levy lid lift measures

8 measures – 6 passed, 2 failed

(2 multi-year, 6 single-year)

93% of cities say that increasing the 1% property tax limit would have a significant, positive impact on their ability to meet their community needs.



Revising the cap

- 1% cap is arbitrary
- Structural deficit between revenue growth and expenditure growth
- Each 1% increase in property tax could generate additional \$70 million

State shared revenue

[AWC Share Revenue Fact Sheet](#)

Shared Revenue	Current Distribution	Historical Distribution
Liquor Profits	\$79 million	\$167.8 million
Liquor Excise Tax	\$51.3 million	\$77.1 million
Municipal Criminal Justice Assistance Account	\$42 million	\$42 million
City County Assistance Account	\$16.5 million (from State REET)	\$377.6 million (from MVET)
Marijuana Excise Tax	\$15 million	\$20 million

Transportation revenue options

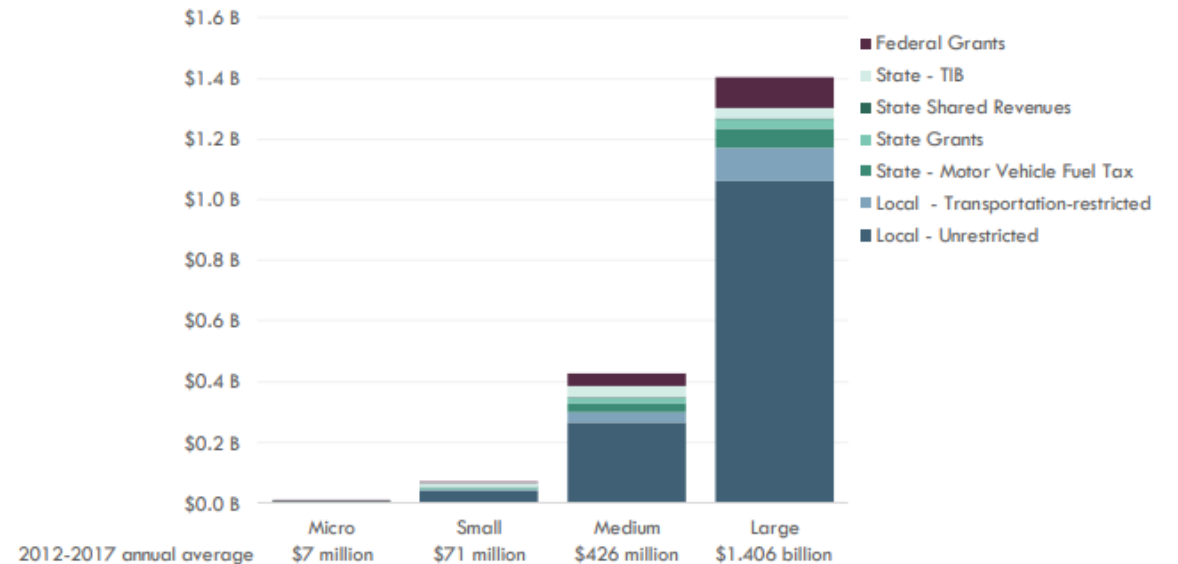
State gas tax distribution

- The state collects 49.4 cents per gallon in state fuel tax. Roughly 10.7% of fuel tax collections are distributed to cities and towns.

Transportation Benefit Districts

- There are 110 municipal transportation benefit districts:
 - 53 cities collect TBD money through vehicle license fees
 - 42 cities collect TBD money through an additional sales and use tax
 - 6 cities collect TBD money using both vehicle license fees and additional sales and use tax

Exhibit 17. City Transportation Revenues by City Type, 2018 dollars, 2012 –2017 Average



Notes: All numbers rounded. Data presents a six-year average in 2018 dollars for 2012-2017.
Sources: WSDOT City Streets and County Roads Dataset, 2012-2017; BERK, 2019.

Housing funding options

Source	Focus	Use	AMI limits	
Housing & Related Services Sales Tax	Affordable housing	Constructing affordable housing & behavioral health facilities & services	60% or below	Olympia, Ellensburg, Port Angeles, Anacortes
Property Tax Levy	Affordable housing	Activities designated by local affordable housing finance plan	50% or below	Seattle, Vancouver, Bellingham
Affordable & Supportive Housing Tax	Affordable housing	Access a portion of state sales tax revenue to make local investments in affordable housing (HB 1406)	60% of below	23 cities
Mental Health Tax	Homelessness	Housing as a component of a coordinated chemical dependency or mental health treatment program or service		Tacoma
Real Estate Excise Tax	Affordable housing & homelessness	Affordable housing & homelessness capital projects, including repair & rehabilitation		

Utility taxes

- 261 cities impose a utility tax
- There are no limits on how a city may use utility tax revenues
 - Tacoma: 2% increase for street improvements
 - Cheney: utility tax extension on electricity and natural gas for continued repair and replacement of residential street infrastructure
- Concerns over regressive nature of utility taxes
- Tax rate may not exceed 6% (unless voter approved) on **electricity, gas and telephone services**.
- There is no rate limit on **sewer/stormwater, solid waste, water, and cable TV**
- Cities generated **\$833 million** in utility tax revenues in 2018.
 - However, 20% of cities and towns generate **less than \$100,000 per year** from their utility taxes.

Business taxes

Business & Occupation (B&O)Tax

- [47 cities](#)
- Subject to referendum upon initial imposition
- Subject to model ordinance requirements

Revenue-generating business license fees

- May be based on number of employees, square footage or other criteria

What cities need:



Flexibility

- Fewer strings/restrictions
- Remove non-supplant
- local authority
- Revise the property tax cap



Sustainability

Diverse revenue tools to fit the needs of diverse cities
Less reliance of volatile revenues (i.e. sales tax)



Predictability

Maintain state shared revenue distributions
Restore and maintain state infrastructure funding programs

Questions?

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Helpful Resources

- MRSC [Revenue Guide for Washington Cities and Towns](#)
- SAO [Financial Intelligence Tool](#)
- DOR [Taxes & Rates](#)