

BUDGET SUGGESTIONS

For 2004



Budget Suggestions For 2004

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of Washington**

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Introduction

Here is your copy of *Budget Suggestions for 2004*. If it seems slimmer than the previous couple issues, it is because we do not have any initiatives from Tim Eyman to try to bisect and dissect this year.

In this publication you will find:

- Descriptions and interpretations of 2003 legislation that may affect your budget.
- CPI forecasts and state-shared revenue forecasts, including a look ahead to 2005.
- An article on public development authorities by Jay Reich, Stacey Crawshaw-Lewis, and Deanna Gregory of Preston Gates and Ellis.
- An article on biennial budgeting from Mike Bailey of the city of Lynnwood.
- A discussion of identity theft from Gail Heinsleman of U.S. Bank.
- Information on using levy lid lifts to increase your property tax levies.
- Updates on last year's initiatives.

Judith Cox, our Public Finance Consultant, is the author of much of the material in this publication. We also have included contributions from the people noted above, and we thank them for their assistance. Holly Martin designed and produced the document. Erica Zwick and Connie Elliot proofed the document. We hope this material will assist you as you proceed through the budget process.



Richard Yukubousky, Executive Director
Municipal Research and Services Center of Washington

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Budget Calendar for Preparation of 2004 Budgets

in First (Under 300,000), Second, and Fourth Class Municipalities and Code Cities

Budget requirements for first (under 300,000) and second class municipalities, and towns are listed in chapter 35.33 RCW, as amended, and for cities under the Optional Municipal Code in chapter 35A.33 RCW, as amended. Chapter 35.32A RCW contains the budget law for cities over 300,000 population (Seattle).

Chapters 35.34 RCW and 35A.34 contain the provisions for a biennial budget. Thus far only a few cities are using the two-year budget process. Please see last page of budget calendar.

Major Steps in Budget Preparation	State Law Time Limitations	Actual 2003 Date
1. Request by city clerk to all department heads and those in charge of municipal offices to prepare detailed estimates of revenues and expenditures for next fiscal year (calendar year).	By second Monday in September. ^{1,2}	September 8
2. Estimates are to be filed with the city clerk.	By fourth Monday in September. ²	September 22
3. Estimates are presented to the chief administrative officer (CAO) for modifications, revisions or additions. City Clerk must submit to CAO proposed preliminary budget setting forth the complete financial program, showing expenditures requested by each department and sources of revenue by which each such program is proposed to be financed.	On or before the first business day in the third month prior to beginning of the fiscal year.	October 1
4. CAO provides the legislative body with current information on estimates of revenues from all sources as adopted in the budget for the current year. CAO also provides the legislative body with the clerk's proposed preliminary budget setting forth the complete financial program, showing expenditures requested by each department and sources of revenue by which each such program is proposed to be financed.	No later than the first Monday in October.	October 6
5. The legislative body must hold a public hearing on revenue sources for the coming year's budget, including consideration of possible increases in property tax revenues. (Chapter 251, Laws of 1995. codified as RCW 84.55.120.)	Before legislative body votes on property tax levy. Deadlines for levy setting are in item 8 below.	

Budget Suggestions for 2004

Major Steps in Budget Preparation	State Law Time Limitations	Actual 2003 Date
6. CAO prepares preliminary budget and budget message ³ and files with the city legislative body and city clerk.	At least 60 days before the ensuing fiscal year.	October 31
7. Clerk publishes notice of filing of preliminary budget with city clerk and publishes notice of public hearing on final budget once a week for two consecutive weeks.	No later than the first two weeks in November.	November 3 through November 14
8. Setting property tax levies (RCW 84.52.020 and RCW 84.52.070).	November 15 for first class cities (except Seattle), code cities, and second class cities. November 30 for Seattle and towns.	
9. The legislative body, or a committee thereof, must schedule hearings on the budget or parts of the budget and may require the presence of department heads.	Prior to the final hearing.	November 3 through 30 (suggested)
10. Copies of proposed (preliminary) budget made available to the public.	No later than six weeks before January 1.	November 20
11. Final hearing on proposed budget.	On or before first Monday of December, and may be continued from day-to-day but no later than the 25th day prior to next fiscal year (December 7).	December 1
12. Adoption of budget for 2004.	Following the public hearing and prior to beginning of the ensuing fiscal year.	Day after last day of your public hearing through December 31.
13. Copies of final budget to be transmitted to the State Auditor's Office and to MRSC.		After adoption
<p>¹RCW 35.33.031 actually provides "on or before the second Monday of the fourth month," etc. Therefore, pursuant to the state budget law, that step (and certain others) could be taken before the dates listed here. See also, RCW 35A.33.030.</p> <p>²Or at such other time as the city or town may provide by ordinance or charter (RCW 35.33.031 and .051 and 35A.33.030 and .050).</p> <p>³RCW 35.33.031 and RCW 35A.33.055 specify that the budget message must contain the following:</p> <ol style="list-style-type: none"> 1. An explanation of the budget document; 2. An outline of the recommended financial policies and programs of the city for the ensuing fiscal year; 3. A statement of the relation of the recommended appropriation to such policies and programs; 4. A statement of the reason for salient changes from the previous year in appropriation and revenue items; 5. An explanation for any recommended major changes in financial policy. 		

Biennial Budgets

All cities and towns that wish to begin budgeting on a biennial basis must pass an ordinance to that effect six months prior to the beginning of the fiscal year. The first year of a biennial budget must be an odd-numbered year. **The next year in which you can start a biennial budget will be 2005. If you are planning to do a biennial budget for 2005-2006, remember that you must pass your ordinance by June 30, 2004.** Next year's issue of *Budget Suggestions* will not come out until late July, so a reminder will not do much good then. See the article on biennial budgeting on pages 36-41. It will give you some ideas and information.

The calendar for the initial preparation of a biennial budget is almost identical to that of an annual budget with some obvious differences, such as the substitution of "biennium" for "year." RCW 35.34.130 and RCW 35A.34.130 require that an ordinance be passed providing for a mid-biennial review and modification of the biennial budget. This must occur no sooner than eight months after the start (September 1, 2003) nor later than the end of the first year of the biennium (December 31, 2003). Notice and hearings are required as outlined in RCW 35.34.130 or RCW 35A.34.130. A complete copy of the budget modification, as adopted by ordinance, must be sent to MRSC and the State Auditor's Office.

Share Your Information Resources Through MRSC

In addition to the copies of the final budget you send to the State Auditor, please send copies to MRSC at:

Municipal Research and Services Center of Washington
2601 Fourth Ave, Suite 800
Seattle, WA 98121-1280

We would also like other documents of general application to share with other cities and towns. The list of things we would like includes: ordinances; forms (tax, business license, job application, etc.); policies and procedures manuals (if you don't have a complete manual, but you do have bits and pieces, send those); job descriptions; interlocal agreements; examples of requests for proposals for anything; contracts; franchise agreements. In short, just about everything that is needed to run a city or town.

Association of Washington Cities Service Fees – 2004	
Population Category	Per Capita Rate
Greater than 300,000	0.2301
100,001 to 300,000	0.3578
20,001 to 100,000	0.5585
5,000 to 20,000	0.5079
Less than 5,000	0.4064
Minimum	\$27.50

Maximum fee is \$100,000.

Budget Calendar for Preparation of 2004 Budgets

for Non-Charter Counties

The annual budget time-line requirements for non-charter counties in Washington are found in Chapter 36.40 RCW. According to RCW 36.40.071, the board of commissioners may set alternative dates for entire process to conform with the alternative preliminary budget hearing date.

Major Steps in Budget Preparation	State Law Time Limitations	Actual 2003 Date
1. Call for Estimates. County Auditor notifies all officials to file budget requests and projected revenues for ensuing fiscal year. RCW 36.40.010	Second Monday in July	July 14
2. Filing of estimates with Auditor or Chief Financial Officer by all officials. RCW 36.40.010	Second Monday in August	August 11
3. Preliminary county budget prepared by Auditor or Chief Financial Officer submitted to board of commissioners. RCW 36.40.050	First Tuesday in September	September 2
4. Preliminary budget hearing by board of commissioners. RCW 36.40.070	First Monday in October	October 6
5. Alternative preliminary budget hearing by board of commissioners. RCW 36.40.071	First Monday in December	December 1
6. Final budget adoption by board of commissioners. RCW 36.40.080	Upon conclusion of budget hearing	Practically, December 31

Biennial Budgets (RCW 36.40.250)

Counties can start a biennial budget in any year. They are not limited to an odd-numbered year as cities are. And, their biennial budget statute gives no indication of when the ordinance or resolution providing for a biennial budget must be passed. From a practical standpoint, it probably needs to be done during the first half of the year so that departments can prepare the estimates that are due to the auditor in August.

The article on biennial budgeting on pages 36-41 will give you some information and ideas.

2003 Legislation That May Affect Your Budget

Sales Tax and Property Tax Lid Lift Legislation for Cities and Counties (2ESSB 5659, Ch. 24, Laws of 2003, 1st Special Session)

One of the goals this year of the Association of Washington Cities, the Washington Association of County Officials, and the Washington State Association of Counties was to get legislation passed that would provide for new voter-approved taxing authority for cities and counties. 2ESSB 5659 provides such authority.

Sales Tax

- A county legislative body may submit a ballot proposal to a countywide vote for a sales tax increase of up to 0.3 percent. Sales of motor vehicles or the lease of motor vehicles for up to the first 36 months are exempt from the tax.
- The proposal must be approved by a majority of the voters.
- The title of the ballot measure must state the purposes for which the funds will be used. However, the legislation states that at least one-third of the money must be spent for “criminal justice purposes,” which is defined as “additional police protection, mitigation of congested court systems, or relief of overcrowded jails or other local correctional facilities,” with no supplanting.
- Sixty percent of the funds will be distributed to the county, with the cities in the county getting 40 percent on a per capita basis.
- The vote must take place at a primary or general election – September 16 or November 4, respectively, for this year. Note that the Department of Revenue requires 75 days notice for sales tax rate changes and they only can occur on the first day of a quarter. That means that if you pass a tax increase at the September election, it can go into effect on January 1, 2004. Firms report January tax collections on February 25 and they are distributed in March. So, plan on only ten months for budget purposes in 2004.
- If a tax increase is passed in November, it will not go into effect until April 1, 2004, with the first receipts coming in the end of June 2004.

Of course, you need to let the Department of Revenue know if you have passed a tax increase. You do that by sending a letter and a copy of your ordinance or resolution to:

Jim Harden
Local Tax Supervisor
Department of Revenue
PO Box 47476
Olympia, WA 98504-7476

Alternative Levy Lid Lift¹

- RCW 84.55.050 has been amended so that cities, counties, and towns can now do multiple levy lid lifts for up to six years. However, there are somewhat different rules and, of course, the tax rate must be within your city's or county's limits per RCW 84.52.043.
- The ballot proposition must state the tax rate for the first year of the lid lift and then state the rate of increase for succeeding years. This can be some kind of index, such as the Consumer Price Index or any other amounts, which do not need to be the same for all years.
- The ballot measure must state the purpose and there can be no supplanting. Note that if you want to use the old "rules" and just do a lid lift for one year, subject to increases per the 101 percent lid process in future years, you do not need to state a purpose or worry about supplanting. This new law just provides an alternative process.
- Majority voter approval is required.
- You can include in the title of the ballot measure, a provision that the maximum amount of the levy in the final year of the lid lift will be the base for future levy increases. Otherwise, at the end of the lid lift period, the base will be reduced to what it would have been if there had been no lid lift.
- The election must be held in September (primary) or November (general).

Other Provisions

The bill also included some other provisions dealing with the Growth Management Act, which the Governor vetoed. The remainder of this act takes effect on July 1, 2003.

Pension Contributions (EHB 2254, Ch. 4, Laws of 2003, 1st Special Session)

This bill, which was passed by the Legislature during the special session, changes the contribution rates for the Public Employees' Retirement System (PERS). It adopts a new actuarial method for smoothing returns on assets in Plans 2 and 3 of PERS, the Teachers' Retirement System (TRS), and the School Employees' Retirement System (SERS). In addition, it suspends contributions that employers pay towards the unfunded liabilities in Plan 1 of PERS and TRS for the 2003-05 biennium. These changes result in a savings to the state of approximately \$107 million over the biennium. They result in member and employer contribution rates for PERS that are more than the current rates but less than those approved by the Pension Funding Council last September.

You should be receiving official word about the contribution rate changes from the Department of Retirement Systems soon. The following chart shows the current rates, the rates that had been scheduled to go into effect on July 1, 2003, and the new rates that did go into effect on July 1, 2003. This bill did not affect LEOFF 2 rates; the member and employer LEOFF 2 rates as of July 1, 2003 will be the rates adopted previously by the Pension Funding Council.

¹ See pages 47-50 for a discussion on lid lifts in general.

	Current Contribution Rates	Rates Adopted by Pension Funding Council (scheduled to go into effect on July 1, 2003; however, the PERS rates were superceded by new rates adopted by the Legislature)	New Rates Effective July 1, 2003
PERS 2 Member	0.65%	1.41%	1.18%
PERS 1, 2, 3 Employer	1.10%*	2.05%*	1.18%*
LEOFF 2 Member	4.39%	5.05%	5.05%
LEOFF 2 Employer	2.64%*	3.03%*	3.03%*

*A DRS administrative fee, currently at .22%, is added to the employer rates.

The PERS 1 member rate remains at 6.00%. The LEOFF 1 rates for both the member and the employer are still 0%, although the employer pays the DRS administrative fee of .22%.

Transportation Budget (ESHB 1163, Ch. 360, Laws of 2003)

Although the legislature increased the gas tax by five cents a gallon beginning July 1, 2003 none of the money will go to local governments. The legislature did reappropriate \$1,156,000 for the small city pavement preservation program and \$4,010,000 for school safety enhancement.

Operating Budget Provides Some Backfill for Cities, Counties, and Health Districts (ESSB 5404, Ch. 25, Laws of 2003, 1st Special Session)

In the 2003-2005 operating budget, the legislature provided some backfill for cities, counties, and health districts. Health districts will receive \$24 million for each of the two fiscal years. One hundred thirty-four cities will receive a total of \$3 million in FY 2004 and \$2 million in FY 2005. Sixteen counties will share \$5 million in FY 2004 only. For a complete listing, see

<http://www.wacounties.org/wsac/HotIssues/county%20city%20pub%20health%20dollars.pdf>. Rather than trying to type this, it may just be easier to go to the Washington State Association of Counties home page (www.wacounties.org) and click on the link.

The distributions will be made in July. There are no spending restrictions, as there were in past years.

Change in Some Municipal Criminal Justice Distributions (SSB 5780, Ch. 90, Laws of 2003)

Some of the distribution criteria for the cities' criminal justice money distributed under RCW 82.14.330 have changed. Sixteen percent is still distributed by population, with no city getting less than \$1,000. Ten percent is still distributed to cities that contract for law enforcement services. And, 20 percent is still distributed to cities with a certain level of violent crime. However, the remaining 54 percent is now going to be distributed

purely on the basis of population, rather than having the police chiefs apply for “grants” through CTED. These funds must still be used for innovative law enforcement strategies, programs to help at-risk children and child abuse prevention, and programs that reduce domestic violence. They do not have to be spent on these programs in any particular proportions. All the funds can be spent in one area if a city wishes.

Implementing the Streamlined Sales and Use Tax Agreement (SB 5783, Ch. 168, Laws of 2003)

State and local governments have become increasingly concerned about losing sales and use taxes on Internet sales. At the present time, firms selling over the Internet and by mail order do not need to collect sales taxes unless they have a physical presence in a state. (Washington residents must pay tax on purchases from Amazon.com, but not L.L. Bean.) In order to collect taxes on all sales, Congress would have to pass a law requiring it. These firms have, so far, convinced Congress that it is too difficult to collect sales taxes because the various state tax structures are so different from each other.

To meet these objections, a number of states in the Streamlined Sales Tax Project have been working together to synchronize their sales and use tax laws. They adopted the Streamlined Sales and Use Tax Agreement last November. The agreement requires states to make some changes in their definitions of what is subject to the sales tax and what is not, and it also requires some administrative changes.

SB 5783 adopts many of these changes for the State of Washington. One change that Washington has not adopted for most retail sales is the “sourcing” provision, which determines in which jurisdiction a sale is considered to have taken place and who gets the tax on the sale.

Currently, in Washington, the sale of an item is considered to have taken place in the jurisdiction in which the purchase was made and from which it is delivered and that jurisdiction gets the sales tax. Under the Streamlined Sales and Use Tax Agreement, the source of the sale is considered to be the jurisdiction to which the item is delivered and that jurisdiction gets the sales tax.

Adoption of this provision would result in losses for some cities and counties and gains for others. This bill provides for a committee to study the effects of these shifts and identify mitigation options for the jurisdictions losing sales taxes.

Changes in Municipal Business and Occupation Taxes (EHB 2030, Ch. 79, Laws of 2003)

For the past few years, the Association of Washington Business has introduced legislation that would have produced changes in the municipal B&O tax, but it was not successful in getting anything passed. Some of its objections had merit. There are 37 cities that have a B&O tax, with different tax codes, and companies that did business in more than one city, found it very difficult to keep track of the differences. Tacoma, for example, taxed car rentals in the service classification, while other cities taxed it as a retail sale.

A couple years ago, the Association of Washington Cities brought together a working group to write a model ordinance to meet some of these concerns. That ordinance is on the MRSC Web site and a number of cities have adopted it.

That model did not address the Association of Washington Business' concerns to its satisfaction and it got legislation passed this year that requires cities, in consultation with chambers of commerce and business interests, to write a new model ordinance. This legislation sets out certain features that the model ordinance must have (most of which the Association of Washington Cities thinks are in the current model ordinance). The most controversial requirement is that of requiring cities to allow apportionment of income by January 1, 2008. This will cause revenue losses in some cities.

In order to levy B&O taxes after December 31, 2004, cities **must** have adopted an ordinance that meets the requirements of this legislation.

As further information becomes available, we will put it on our Web site. AWC will keep the B&O tax cities posted on what is happening.

New Charge Permitted on Lodging (ESSB 6026, Ch. 148, Laws of 2003)

A county with a population of more than 40,000, but less than 1 million, and the cities in it, may form a "tourist promotion area." Within that area, they may assess a charge of up to \$2 per night on the sale of lodging. The revenue must be used for "tourism promotion," which is defined as "activities and expenditures designed to increase tourism and convention business, including but not limited to advertising, publicizing, or otherwise distributing information for the purpose of attracting and welcoming tourists and operating tourism destination marketing organizations."

Formation of an area is initiated by a petition to the legislative body that must have the signatures of people in the lodging industry that would be paying at least 60 percent of the charges in the area. Up to six different classifications are allowed, with different charges for each one, but no charge can be more than \$2 per night. Unless a county and city sign an interlocal agreement to do otherwise, a county can form an area only in an unincorporated area and a city, only within the boundaries of the city.

Public Works Bidding Procedures (ESHB 2056, Ch. 300, Laws of 2003)

Chapter 300 establishes new procedures for a municipality to use when handling protests submitted by bidders on publicly bid public works contracts. If a written protest is received within two business days of the bid opening, the municipality may not enter into a contract for the project – unless with the protesting bidder – without first providing at least two full business days' written notice of its intent to execute a contract.

The act further provides that if a low bidder claims error and fails to enter into a contract, it is prohibited from bidding on the same project in the event of a second or subsequent bid on the project.

In addition, Chapter 300 adds public hospital districts to the list of government entities eligible to use alternative public works contracting procedures, such as design-build. The chapter also provides new procedures for the submittal of written protests by subcontractors involved with general contract-construction manager procedures.

I-790 Wording Fixed (SHB 2198, Ch. 93, Laws of 2003)

I-790, passed in November 2002, created a new board to oversee LEOFF 2 pensions for police and firefighters. It also included language in section 6(5) that said if pension fund investments earned more than the actuarially assumed rate of investment return (currently, eight percent), the excess “shall be used exclusively for additional benefits for members and beneficiaries.” In the past, if investments earned a rate of return greater than the actuarially assumed rate of return, the money was put in reserve to supplement earnings in years in which investments earned less than the assumed amount.

The state actuary did a number of estimates, using various assumptions. They all showed that the members, local governments, and the state would have to increase their contributions significantly in order to fund this provision. An early estimate had local government contributions increasing by \$266 million a year and the contribution rate of members increasing to over 25 percent of their salaries.

LEOFF 2 members and local governments supported this legislation, which removed this section from I-790. A two-thirds vote of both houses was needed because the initiative has been in effect for less than two years.

Volunteer Firefighter Pension Increase (HB 1110, Ch. 62, Laws of 2003)

Cities, counties, and fire districts are required to participate in the death, disability, and medical benefits plans of the pension system. They are not required to make a contribution for pensions, although approximately two-thirds of those that use volunteer firefighters make such a contribution.

If the firefighter’s “employer” has paid a participation fee for each of the 25 years he or she has been a volunteer firefighter, the firefighter has been receiving a pension \$280 a month. This payment is now raised to \$300. If a participation fee has not been paid for each of the 25 years, the payout has been \$30 a month plus an additional \$10 a month for each year the fee was paid, up to a maximum of \$280. That figure is now increased \$50 a month plus an additional \$10 a month up to a maximum of \$300.

Timber Harvest Cost Information (2SSB 5074, Ch. 313, Laws of 2003)

Section 11 of this bill amends RCW 84.33.078 in a way that affects local governments (and that state) that harvest or market timber from public land. The municipality must provide the harvester purchasing the timber with information on harvesting and marketing costs.

RCW 84.33.035(7) defines “harvesting and marketing costs” as “only those costs directly associated with harvesting the timber from the land and delivering it to the buyer and may include the costs of disposing of logging residues. Any other costs that are not directly and exclusively related to harvesting and marketing of the timber, such as costs of permanent roads or costs of reforesting the land following harvest, are not harvesting and marketing costs.”

These costs are excluded from the stumpage value on which the harvester pays the timber excise tax. RCW 84.33.035(16).

The Department of Revenue is mailing further information to the affected local governments.

Inflation Forecast

Consumer Price Index

The Consumer Price Index (CPI) is a measure of the change in prices paid over time for a fixed “market basket” of goods and services. The Consumer Price Index for All Urban Consumers (CPI-U) measures the percentage change in prices faced by urban consumers and covers approximately 87 percent of the population. The Consumer Price Index for Wage Earners and Clerical Workers (CPI-W) is sometimes referred to as the “blue collar measure.” It is a subset of the CPI-U. Its market basket reflects the expenditures of urban households that derive more than half their income from clerical and hourly wage jobs. It covers approximately 32 percent of the population.

Data for each of these indices for the United States as a whole are compiled on a monthly basis. The results are available during the third week of the following month. Each of these indices is published for the Portland-Salem area (formerly called the Portland-Vancouver index) twice a year. The results for the first half of the year are available during the third week of August. The second half figures are published in the third week of February. At the beginning of 1998, the Seattle-Tacoma index was renamed the Seattle-Tacoma-Bremerton index and expanded to include Island, Kitsap, and Thurston counties. It is compiled six times a year, in the even-numbered months. The results are published in the middle of the following month.

The Bureau of Labor Statistics recommends the use of one of the national indices for all contracts. Not only are the Seattle-Tacoma-Bremerton and Portland-Salem versions published less frequently, they also are based on a smaller sample and are, therefore, more volatile and subject to measurement error. **None** of these indices measures price changes in rural areas. But realizing that towns in rural areas need some indicator to use, we recommend one of the U.S. indices. Always write your contracts so that you will be adjusting on the basis of actual CPI figures. Never use estimates for contract adjustments.

Information on the most recent releases of the CPI can be obtained from the CPI Hotline in Seattle (206) 553-0645 or Portland (503) 231-2045. A link to the most recent releases can be found at www.mrsc.org/finance/cpipage.htm. Questions can be addressed to the Bureau of Labor Statistics, Information and Correspondence, 71 Stevenson Street, PO Box 3766, San Francisco, CA 94119-3766, telephone number, (415) 975-4350.

Table 1 on the following pages gives monthly historical information on the U.S. CPI-U and CPI-W, bimonthly data for Seattle, semiannual data for Seattle and Portland, and annual averages. The graphs on page 13 give historical information on the **annual average** CPI-U and CPI-W for the U.S., Seattle, and Portland, as well as some forecasts for 2003 and 2004.

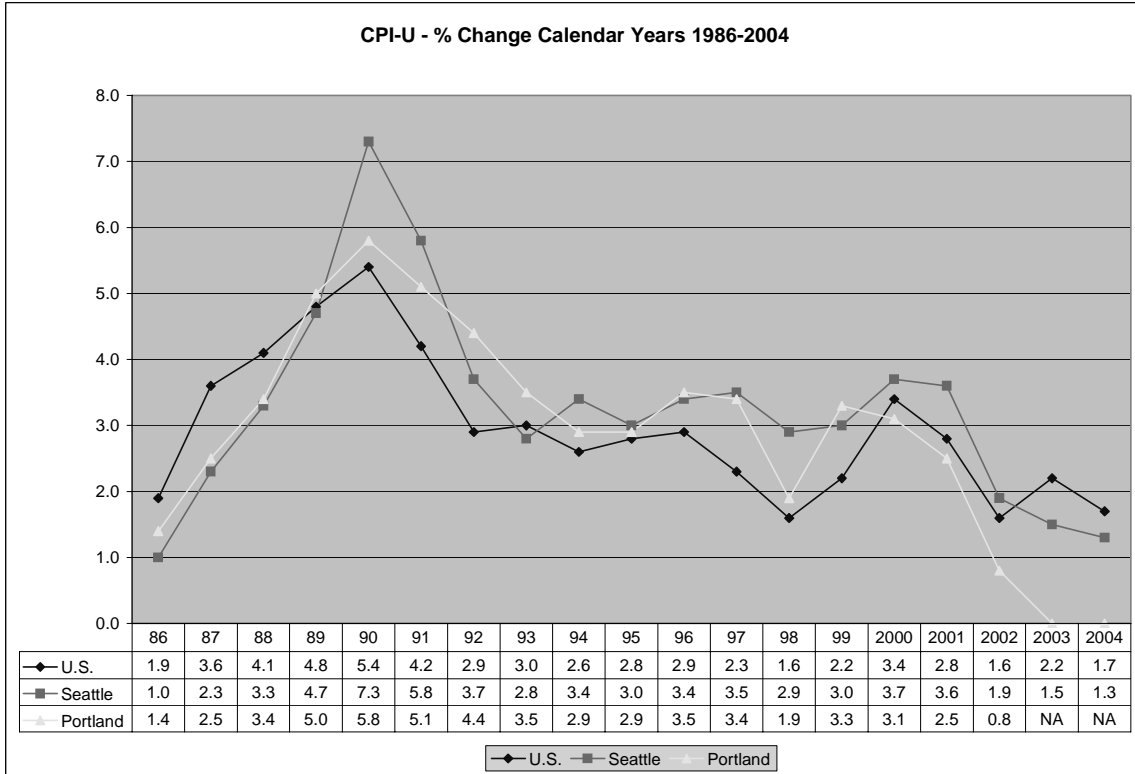
In June, almost all forecasters lowered their inflation forecasts for 2003 compared to their earlier forecasts. We have forecasts for the national inflation rates from the Philadelphia Federal Reserve Bank, which surveys 30 economists; the Research Seminar in Quantitative Economics at the University of Michigan; The *Wall Street Journal*, which surveys 54 economists twice a year (probably some of the same economists that the Philadelphia Federal Reserve surveys); Global Insight (formerly DRI-WEFA, a private consulting firm); and the Office of the Forecast Council for Washington State. The Forecast Council has used the Global Insight estimate for its forecast of the national CPI, and we are following their lead.

For the Seattle-Tacoma area, we depend on the Office of the Forecast Council and local economists. We are unable to get forecasts for the Portland area.

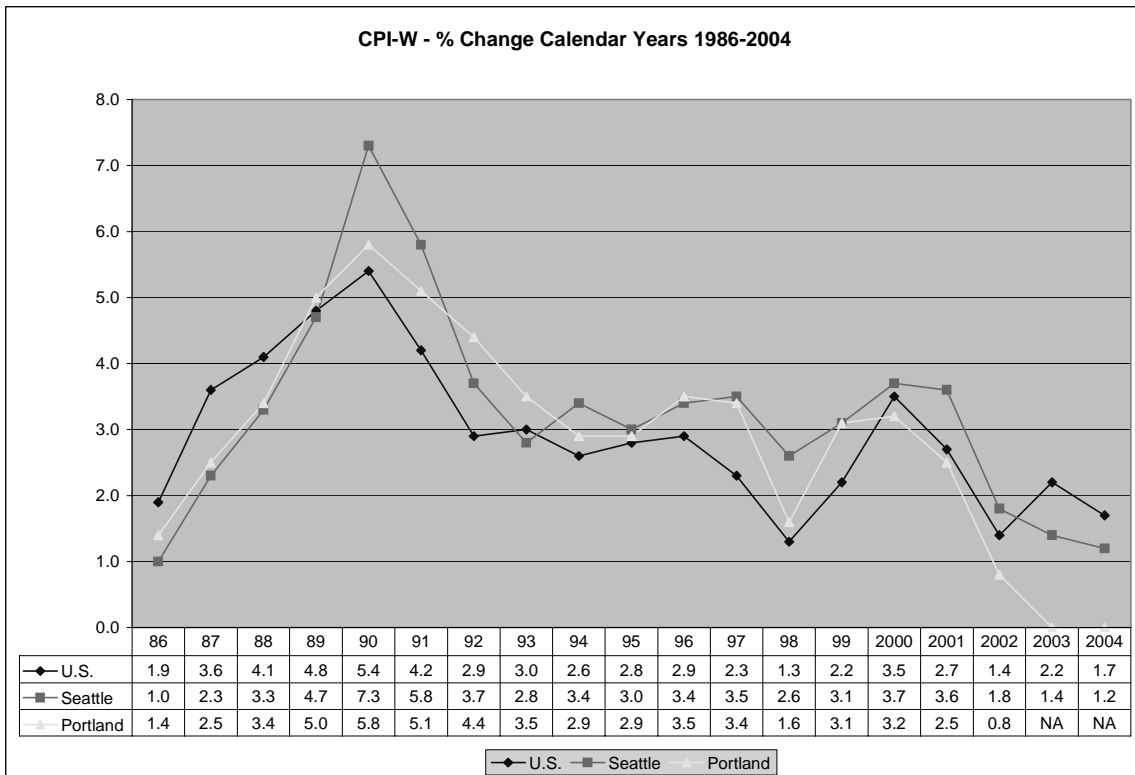
Calendar year growth in gross domestic product (GDP) is expected to slow from the preliminary estimates of 2.4 percent in 2002 to 2.3 percent in 2003 and then increase to 4.2 percent in 2004, according to the Forecast Council. The national unemployment rate has increased to 5.77 percent in the first quarter of 2003.

It is typical for growth in Washington State to follow the national pattern with a lag. Washington's employment rate declined by 1.2 percent in the fourth quarter of 2002 and 0.5 percent in the first quarter of 2003. The big factor is aerospace employment, which was down 7.1 percent in the first quarter of 2003, and 21.0 percent since September 11, 2001.

For the last nine years, the inflation rate in the Seattle area has been higher than the national rate for both the CPI-U and CPI-W. The Office of the Forecast Council is predicting that the Seattle rate for CPI-U will be below the national rate for the next few years.



Figures for 2003-2004 are Estimates



Figures for 2003-2004 are Estimates

Table 1
Consumer Price Index
1990 to Present

Year	Month	All Urban Consumers (CPI-U)			Urban Wage Earners & Clerical Workers (CPI-W)		
		Seattle	Portland	U.S.	Seattle	Portland	U.S.
1990	January			127.4 (5.2%)			125.9 (5.2%)
	February			128.0 (5.3)			126.4 (5.2)
	March			128.7 (5.2)			127.1 (5.2)
	April			128.9 (4.7)			127.3 (4.5)
	May			129.2 (4.4)			127.5 (4.1)
	June			129.9 (4.7)			128.3 (4.5)
	First half '90	124.2 (6.4%)	124.9 (4.7%)		122.0 (6.4%)	121.8 (4.6%)	
	July			130.4 (4.8)			128.7 (4.5)
	August			131.6 (5.6)			129.9 (5.4)
	September			132.7 (6.2)			131.1 (6.1)
	October			133.5 (6.3)			131.9 (6.2)
	November			133.8 (6.3)			132.2 (6.3)
	December			133.8 (6.1)			132.2 (6.1)
Second half '90	129.4 (8.2)	129.8 (6.7)		126.9 (7.9)	126.6 (6.7)		
ANNUAL AVE.	126.8 (7.4)	127.4 (5.8)	130.7 (5.4)	124.4 (7.1)	124.2 (5.6)	129.0 (5.2)	
1991	January			134.6 (5.7%)			132.8 (5.5%)
	February			134.8 (5.3)			132.8 (5.1)
	March			135.0 (4.9)			133.0 (4.6)
	April			135.2 (4.9)			133.3 (4.7)
	May			135.6 (5.0)			133.8 (4.9)
	June			136.0 (4.7)			134.1 (4.5)
	First half '91	133.0 (7.1%)	132.8 (6.3%)		130.2 (6.7%)	129.6 (6.4%)	
	July			136.2 (4.4)			134.3 (4.4)
	August			136.6 (3.8)			134.6 (3.6)
	September			137.2 (3.4)			135.2 (3.1)
	October			137.4 (2.9)			135.4 (2.7)
	November			137.8 (3.0)			135.8 (2.7)
	December			137.9 (3.1)			135.9 (2.8)
Second half '91	135.2 (4.5)	135.1 (4.1)		132.4 (4.3)	132.1 (4.3)		
ANNUAL AVE.	134.1 (5.8)	133.9 (5.1)	136.2 (4.2)	131.3 (5.5)	130.8 (5.3)	134.3 (4.1)	
1992	January			138.1 (2.6%)			136.0 (2.4%)
	February			138.6 (2.8)			136.4 (2.7)
	March			139.3 (3.2)			137.0 (3.0)
	April			139.5 (3.2)			137.4 (3.0)
	May			139.7 (3.0)			137.6 (2.8)
	June			140.2 (3.1)			137.6 (3.0)
	First half '92	137.8 (3.6%)	138.8 (4.5%)		134.8 (3.5%)	135.5 (4.6%)	
	July			140.5 (3.2)			138.4 (3.1)
	August			140.9 (3.1)			138.8 (3.1)
	September			141.3 (3.0)			139.1 (2.9)
	October			141.8 (3.2)			139.6 (3.1)
	November			142.0 (3.0)			139.8 (2.9)
	December			141.9 (2.9)			139.8 (2.9)
Second half '92	140.2 (3.7)	140.9 (4.3)		137.2 (3.6)	137.7 (4.2)		
ANNUAL AVE.	139.0 (3.7)	139.8 (4.4)	140.3 (3.0)	136.0 (3.6)	136.6 (4.4)	138.2 (2.9)	
1993	January			142.6 (3.3%)			140.3 (3.2%)
	February			143.1 (3.2)			140.7 (3.2)
	March			143.6 (3.1)			141.1 (3.0)
	April			144.0 (3.2)			141.6 (3.1)
	May			144.2 (3.2)			141.9 (3.1)
	June			144.4 (3.0)			142.0 (2.8)
	First half '93	141.9 (3.0%)	143.6 (3.5%)		138.9 (3.0%)	140.3 (3.5%)	
	July			144.4 (2.8)			142.1 (2.7)
	August			144.8 (2.8)			142.4 (2.6)
	September			145.1 (2.7)			142.6 (2.5)

		All Urban Consumers (CPI-U)			Urban Wage Earners & Clerical Workers (CPI-W)		
Year	Month	Seattle	Portland	U.S.	Seattle	Portland	U.S.
	October			145.7 (2.8)			143.3 (2.7)
	November			145.8 (2.7)			143.4 (2.6)
	December			145.8 (2.7)			143.3 (2.5)
	Second half '93	143.9 (2.6)	145.8 (3.5)		141.1 (2.8)	142.6 (3.6)	
	ANNUAL AVE.	142.9 (2.8)	144.7 (3.5)	144.5 (3.0)	140.0 (2.9)	141.5 (3.6)	142.1 (2.8)
1994	January			146.2 (2.5%)			143.6 (2.4%)
	February			146.7 (2.5)			144.0 (2.3)
	March			147.2 (2.5)			144.4 (2.3)
	April			147.4 (2.4)			144.7 (2.2)
	May			147.5 (2.3)			144.9 (2.1)
	June			148.0 (2.5)			145.4 (2.4)
	First half '94	146.4 (3.2%)	147.7 (2.9%)		143.7 (3.5%)	144.3 (2.9%)	
	July			148.4 (2.8)			145.8 (2.6%)
	August			149.0 (2.9)			146.5 (2.9)
	September			149.4 (3.0)			146.9 (3.0)
	October			149.5 (2.6)			147.0 (2.6)
	November			149.7 (2.7)			147.3 (2.7)
	December			149.7 (2.7)			147.2 (2.7)
	Second half '94	149.2 (3.7)	150.1 (2.9)		146.5 (3.8)	146.8 (2.8)	
	ANNUAL AVE.	147.8 (3.4)	148.9 (2.9)	148.2 (2.6)	145.1 (3.6)	145.6 (2.9)	145.6 (2.5)
1995	January			150.3 (2.8%)			147.8 (2.9%)
	February			150.9 (2.9)			148.3 (3.0)
	March			151.4 (2.9)			148.7 (3.0)
	April			151.9 (3.1)			149.3 (3.2)
	May			152.2 (3.2)			149.6 (3.2)
	June			152.5 (3.0)			149.9 (3.1)
	First half '95	151.2 (3.3%)	152.5 (3.2%)		148.3 (3.2%)	149.1 (3.3%)	
	July			152.5 (2.8)			149.9 (2.8)
	August			152.9 (2.6)			150.2 (2.5)
	September			153.2 (2.5)			150.6 (2.5)
	October			153.7 (2.8)			151.0 (2.7)
	November			153.6 (2.6)			150.9 (2.4)
	December			153.5 (2.5)			150.9 (2.5)
	Second half '95	153.3 (2.7)	153.9 (2.5)		150.4 (2.7)	150.7 (2.7)	
	ANNUAL AVE.	152.3 (3.0)	153.2 (2.9)	152.4 (2.8)	149.3 (2.9)	149.9 (3.0)	149.8 (2.9)
1996	January			154.4 (2.7%)			151.7 (2.6%)
	February			154.9 (2.7)			152.2 (2.6)
	March			155.7 (2.8)			152.9 (2.8)
	April			156.3 (2.9)			153.6 (2.9)
	May			156.6 (2.9)			154.0 (2.9)
	June			156.7 (2.8)			154.1 (2.8)
	First half '96	155.6 (2.9%)	157.2 (3.1%)		152.6 (2.9%)	153.9 (3.2%)	
	July			157.0 (3.0)			154.3 (2.9)
	August			157.3 (2.9)			154.5 (2.9)
	September			157.8 (3.0)			155.1 (3.0)
	October			158.3 (3.0)			155.5 (3.0)
	November			158.6 (3.3)			155.9 (3.3)
	December			158.6 (3.3)			155.9 (3.3)
	Second half '96	159.4 (4.0)	160.0 (4.0)		155.9 (3.7)	156.5 (3.8)	
	ANNUAL AVE.	157.5 (3.4)	158.6 (3.5)	156.9 (3.0)	154.3 (3.3)	155.2 (3.5)	154.1 (2.9)
1997	January			159.1 (3.0%)			156.3 (3.0%)
	February			159.6 (3.0)			156.8 (3.0)
	March			160.0 (2.8)			157.0 (2.7)
	April			160.2 (2.5)			157.2 (2.3)
	May			160.1 (2.2)			157.2 (2.1)
	June			160.3 (2.3)			157.4 (2.1)
	First half '97	161.9 (4.0%)	162.6 (3.4%)		158.2 (3.7%)	159.0 (3.3%)	
	July			160.5 (2.2)			157.5 (2.1)
	August			160.8 (2.2)			157.8 (2.1)
	September			161.2 (2.2)			158.3 (2.1)

Budget Suggestions for 2004

Year	Month	All Urban Consumers (CPI-U)			Urban Wage Earners & Clerical Workers (CPI-W)		
		Seattle	Portland	U.S.	Seattle	Portland	U.S.
	October			161.6 (2.1)			158.5 (1.9)
	November			161.5 (1.8)			158.5 (1.7)
	December			161.3 (1.7)			158.2 (1.5)
	Second half '97	164.1 (2.9)	165.5 (3.4)		159.9 (2.6)	161.7 (3.3)	
	ANNUAL AVE.	163.0 (3.5)	164.0 (3.4)	160.5 (2.3)	159.0 (3.1)	160.4 (3.3)	157.6 (2.2)
1998	January			161.6 (1.6%)			158.4 (1.3%)
	February	166.5 (N/A)		161.9 (1.4)	162.2 (N/A)		158.5 (1.1)
	March			162.2 (1.4)			158.7 (1.1)
	April	166.4 (N/A)		162.5 (1.4)	161.9 (N/A)		159.1 (1.2)
	May			162.8 (1.7)			159.5 (1.5)
	June	167.5 (N/A)		163.0 (1.7)	168.2 (N/A)		159.7 (1.5)
	First half '98	166.6 (2.9%)	166.1 (2.2%)		162.1 (2.5%)	162.2 (2.0%)	
	July			163.2 (1.7)			159.8 (1.5)
	August	168.5 (N/A)		163.4 (1.6)	168.5 (N/A)		160.0 (1.4)
	September			163.6 (1.5)			160.2 (1.2)
	October	169.3 (N/A)		164.0 (1.5)	164.9 (N/A)		160.6 (1.3)
	November			164.0 (1.5)			160.7 (1.4)
	December	169.4 (2.7)		163.9 (1.6)	164.9 (2.7)		160.7 (1.6)
	Second half '98	168.9 (2.9)	168.1 (1.6)		164.4 (2.8)	163.5 (1.1)	
	ANNUAL AVE.	167.7 (2.9)	167.1 (1.9)	163.0 (1.6)	163.2 (2.6)	162.9 (1.6)	159.7 (1.3)
1999	January			164.3 (1.7%)			161.0 (1.6%)
	February	170.6 (2.5)		164.5 (1.6)	166.0 (2.3)		161.1 (1.6)
	March			165.0 (1.7)			161.4 (1.7)
	April	172.2 (3.5)		166.2 (2.3)	167.8 (3.6)		162.7 (2.3)
	May			166.2 (2.1)			162.8 (2.1)
	June	172.7 (3.1)		166.2 (2.0)	168.0 (3.2)		162.8 (1.9)
	First half '99	171.6 (3.0)	170.8 (2.8)		167.0 (3.0)	166.2 (2.5)	
	July			166.7 (2.1)			163.3 (2.2)
	August	173.4 (2.9)		167.1 (2.3)	168.8 (3.1)		163.8 (2.4)
	September			167.9 (2.6)			164.7 (2.8)
	October	174.7 (3.2)		168.2 (2.6)	170.2 (3.2)		165.0 (2.7)
	November			168.3 (2.6)			165.1 (2.7)
	December	174.4 (3.0)		168.3 (2.7)	170.1 (3.2)		165.1 (2.7)
	Second half '99	174.0 (3.0)	174.4 (3.7)		169.5 (3.1)	169.6 (3.7)	
	ANNUAL AVE.	172.8 (3.0)	172.6 (3.3)	166.6 (2.2)	168.3 (3.1)	167.9 (3.1)	163.2 (2.2)
2000	January			168.8 (2.7%)			165.6 (2.9%)
	February	176.1 (3.2)		169.8 (3.2)	171.6 (3.4)		166.5 (3.4)
	March			171.2 (3.8)			167.9 (4.0)
	April	177.7 (3.2)		171.3 (3.0)	173.3 (3.2)		168.0 (3.3)
	May			171.5 (3.2)			168.2 (3.3)
	June	179.2 (3.8)		172.4 (3.7)	174.5 (3.9)		169.2 (3.9)
	First half '00	177.3 (3.3)	176.4 (3.3)		172.8 (3.5)	171.8 (3.4)	
	July			172.8 (3.7)			169.4 (3.9)
	August	180.3 (4.0)		172.8 (3.4)	175.4 (3.9)		169.3 (3.4)
	September			173.7 (3.5)			170.4 (3.5)
	October	182.1 (4.2)		174.0 (3.4)	177.5 (4.3)		170.6 (3.4)
	November			174.1 (3.4)			170.9 (3.5)
	December	181.5 (4.1)		174.0 (3.4)	177.0 (4.1)		170.7 (3.4)
	Second half '00	181.1 (4.1)	179.5 (2.9)		176.4 (4.1)	174.6 (2.9)	
	ANNUAL AVE.	179.2 (3.7)	178.0 (3.1)	172.2 (3.4)	174.6 (3.7)	173.2 (3.2)	168.9 (3.5)
2001	January			175.1 (3.7%)			171.7 (3.7%)
	February	184.0 (4.5)		175.8 (3.5)	179.2 (4.4)		172.4 (3.5)
	March			176.2 (2.9)			172.6 (2.8)
	April	184.2 (3.6)		176.9 (3.3)	179.4 (3.5)		173.5 (3.3)
	May			177.7 (3.6)			174.4 (3.7)
	June	186.3 (4.0)		178.0 (3.2)	181.3 (3.9)		174.6 (3.2)
	First half '01	184.4 (4.0)	181.2 (2.7)		179.6 (3.9)	176.4 (2.7)	
	July			177.5 (2.7)			173.8 (2.6)
	August	186.8 (3.6)		177.5 (2.7)	181.5 (3.5)		173.8 (2.7)
	September			178.3 (2.6)			174.8 (2.6)

Budget Suggestions for 2004

		All Urban Consumers (CPI-U)			Urban Wage Earners & Clerical Workers (CPI-W)		
Year	Month	Seattle	Portland	U.S.	Seattle	Portland	U.S.
	October	187.9 (3.2)		177.7 (2.1)	183.1 (3.2)		174.0 (2.0)
	November			177.4 (1.9)			173.7 (1.6)
	December	186.1 (2.5)		176.7 (1.6)	181.1 (2.3)		172.9 (1.3)
	Second half '01	186.9 (3.2)	183.6 (2.3)		181.9 (3.1)	178.5 (2.2)	
	ANNUAL AVE.	185.7 (3.6)	182.4 (2.5)	177.1 (2.8)	180.8 (3.6)	177.5 (2.5)	173.5 (2.7)
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2002	January			177.1 (1.1%)			173.2 (0.9%)
	February	187.6 (2.0)		177.8 (1.1)	182.5 (1.8)		173.7 (0.8)
	March			178.8 (1.5)			174.7 (1.2)
	April	188.8 (2.5)		179.8 (1.6)	183.6 (2.3)		175.8 (1.3)
	May			179.8 (1.2)			175.8 (0.8)
	June	189.4 (1.7)		179.9 (1.1)	184.1 (1.5)		175.9 (0.7)
	First half '02	188.3 (2.1)	183.5 (1.3)		183.1 (1.9)	178.7 (1.3)	
	July			180.1 (1.5)			176.1 (1.3)
	August	190.3 (1.9)		180.7 (1.8)	184.8 (1.8)		176.6 (1.6)
	September			181.0 (1.5)			177.0 (1.3)
	October	190.9 (1.6)		181.3 (2.0)	185.5 (1.3)		177.3 (1.9)
	November			181.3 (2.2)			177.4 (2.1)
	December	190.0 (2.1)		180.9 (2.4)	184.6 (1.9)		177.0 (2.4)
	Second half '02	190.3 (1.8)	184.0 (0.2)		184.9 (1.6)	179.3 (0.4)	
	ANNUAL AVE.	189.3 (1.9)	183.8 (0.8)	179.9 (1.6)	184.0 (1.8)	179.0 (0.8)	175.9 (1.4)
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2003	January			181.7 (2.6%)			177.7 (2.6%)
	February	191.3 (2.0)		183.1 (3.0)	186.2 (2.0)		179.2 (3.2)
	March			184.2 (3.0)			180.3 (3.2)
	April	192.3 (1.9)		183.8 (2.2)	187.0 (1.9)		179.8 (2.3)
	May			183.5 (2.1)			179.4 (2.0)
	June	191.7 (1.2)		183.7 (2.1)	185.7 (0.9)		179.6 (2.1)

Implicit Price Deflator for Personal Consumption Expenditures

Monthly Index and Cumulative Percentage Change from July 2002

	Jul 02	Aug	Sep	Oct	Nov	Dec	Jan 03	Feb	Mar	Apr	May
Orig. Index	111.12	111.37	111.59	111.79	111.86	111.95	112.17	112.64	113.04	112.83	112.70
Cum. % Change		0.22	0.42	0.60	0.67	0.75	0.94	1.37	1.73	1.54	1.42
IPD % Proj.		2.70	2.54	2.41	2.00	1.79	1.89	2.34	2.59	2.05	1.71
Prev. 12 Mo. % Change		1.45	2.11	1.70	1.80	2.03	2.05	2.28	2.41	1.78	1.69

Source: Survey of Current Business, Table B.2 - The Disposition of Personal Income, and/or BEA news releases.

The top row represents the preliminary and revised implicit price deflator indices for personal consumption expenditures (IPD) published by the Bureau of Economic Analysis (BEA). (Every month from August to May, the BEA goes back and revises the data for the last three to six months.) The second row represents the cumulative percentage change in the preliminary or revised index from July of 2002. The third row represents the projections of the annual IPD since July of 2002 when using the methodology of dividing the cumulative percentage change since July by the number of months since July and then multiplying the dividend by 12 to obtain an annual estimate. The fourth row represents the actual percentage change over the last 12 months.

BEA Revisions and Our Forecast

Each June, the BEA does an annual revision of the data for the last three years. This means that the 12-month change in the July index – the one that sets the “inflation rate” for property tax increases – may be **quite different** from the rate we have been seeing so far this year. It all depends on how much they “tweak” the data.

Is there a possibility that the July index (which we will not have until late August – see below) will be low enough that the rate of increase in the IPD will be less than the “magic” one percent for property tax increase purposes? Probably not, but we do not know for sure.

For the increase to be exactly one percent, the July index number (first row) would have to fall to 112.23. Sometimes the annual “tweaking” increases the numbers, sometimes it decreases them. It is true that the index numbers (first row) and, therefore, the cumulative percentage changes (second row) have decreased the last couple months, following the decline in the percentage change in the CPI. Still, there would have to be some pretty big changes for the rate of increase in the IPD to fall below one percent.

We will publish the “annual inflation factor” in our Focus section of the MRSC Web site as soon as it is available, sometime on or after August 29th. Beginning last year, the BEA stopped including the IPD in its news releases. That means we have to reach the “keeper” of this number in Washington, D.C. The information about July becomes available on August 29, is the Friday before the Labor Day weekend. So, there is a possibility that we will not have the information until the following week.

Remember, the number is not **official** until it has actually been published in the September issue of the *Survey of Current Business*. The BEA publishes this journal on its Web site sometime after the middle of the month.

Revenue Forecasts

Update on Franchise Fees and Utility Taxes on Cable Modem Service

In *Budget Suggestions for 2003*, we reported on a Federal Communications Commission (FCC) ruling “that cable modem service as currently provided is an interstate information service, not a cable service, and that there is no separate telecommunications service offering to subscribers to internet service providers.” In response to this ruling, providers of cable modem service sent letters to cities and counties, saying that they were going to immediately stop paying franchise fees on revenues from cable modem service. Some also said that they were not going to pay city utility taxes on such revenues.

Various organizations (National Association of Telecommunications Officers and Advisors (NATOA), National League of Cities, U.S. Conference of Mayors, the National Association of Counties, and the International Municipal Lawyers Association), joined together in a coalition and filed a petition for review in the Federal Court of Appeals to challenge the ruling.

Jim Doherty, our Legal Consultant who specializes in telecommunications issues provides the following report on where matters stand now.

The federal Ninth Circuit Court of Appeals has heard arguments and is expected to issue its decision regarding the Portland appeal (saying that cable modem services are not a “cable service” but an “interstate information service”) either late this summer or in the fall. The FCC is also reconsidering its ruling, but there is no estimate of when any decision would be made. So, the status at present is:

- Cities and counties cannot require cable companies to pay franchise fees on revenue derived from the provision of cable internet services.
- Because the FCC has ruled that cable internet access is not a telecommunications service, Washington cities cannot impose their telephone tax on the services.
- Some U.S. cities are exploring options for taxing cable internet services, but so far there is no clear authority for such taxation.

It is possible that, in the future, cities and counties will again have access to this revenue source, but you should not count on it (and we doubt that any of you are) for your 2004 budgets.

City and County State-Shared Revenues

Population Forecast

The official April 1, 2003 **city** population, to be used for distributions in 2004, is 3,736,468. This is 3.3 percent more than the population for April 1, 2002 that was released last year. The incorporation of Spokane Valley added 82,005 to the city population, accounting for 2.3 percent of the growth. The remaining one percent came mainly from people moving into cities from unincorporated areas and out-of-state. There have been no significant annexations since the Washington State Supreme Court ruling in *Grant County Fire Protection District No. 5 v. City of Moses Lake* in March 2002 found the petition method of annexation unconstitutional. In past years, we have adjusted the April 1 numbers upward for annexations we knew were

in the pipeline. (Cities that annex qualify for state-shared revenue distributions on their new population base, starting the quarter after the annexation.) We have made no such adjustments this year, even after the passage of SSB 5409, which established a new petition method of annexation and should make annexations somewhat easier. And, of course, there is always the possibility that the Washington State Supreme Court will reverse its previous decision and decide that the old petition method for annexation is legal. We will await their decision.

The official April 1, 2003 **county** population is 2,361,832. This was a decrease of 2.6 percent from 2002 and the primary reason for the decrease was the Spokane Valley incorporation. We have used this number, unadjusted, in making the county forecasts for Liquor Board profits and the liquor excise tax.

Motor Vehicle Fuel Taxes

Our gasoline and diesel tax forecasts come from Brian Calkins of the Department of Transportation.

Beginning July 1, 2003, the state fuel tax increases to 28 cents from 23 cents as part of the “Nickel Funding Package” enacted for transportation by the 2003 Washington State Legislature.

Higher gasoline prices are reducing the amount of gasoline purchased and lower economic activity is reducing the amount of diesel fuel purchased. Revenue distributions to cities and counties for 2003 and future years, based upon the 23 cents portion of the 28 cents tax, are down from the forecast made last summer in terms of the number of gallons sold and taxes received.

He is forecasting a growth in revenues of 1.8 percent for 2004, but city per capita revenues (see Table 3) are flat because Spokane Valley will be getting distributions for a full calendar year in 2004 and there was some general increase in city population on top of that.

Remember that the gasoline and diesel tax is a flat amount per gallon rather than a percentage of the price at the pump, so even when gas and diesel fuel prices increase, the tax revenue may decrease if the number of gallons sold decreases by a greater percentage amount.

The **county** distribution formula includes annual road costs and “need” in addition to population. For the first time, we are presenting the estimates for the coming year, based on these factors, from the County Road Administration Board (CRAB) in Table 2. City forecasts are in Tables 3 and 4.

Liquor Revenues

We seem to keep saying this over and over again, but the growth in liquor excise tax revenues last year was much higher than we thought it would be, increasing by 6.6 percent versus our forecast of four percent. This was down slightly from the growth rate of the prior three years. Some of you probably remember the mid-90’s when it was zero percent or less. We said last year that this makes no sense to us. It still does not. The liquor excise tax is a percentage tax on the price of a bottle. The higher the price, the higher the tax collected per bottle. So, for revenue to increase, people either have to buy more expensive liquor or buy more bottles or both.

We are in a recession and the state population increased by less than one percent between April 2002 and April 2003. At some point, people will stop increasing their consumption at the same rate as in the past and/or refrain from moving up to higher priced liquor. We are going with a forecast of 3.5 percent for 2004.

Liquor Board profits are primarily composed of the difference between the board's revenues and expenditures. But they also include monies from a tax on beer and a distribution of part of the funds received from Class H licenses (establishments that serve hard liquor). Each of these revenue sources has its own forecasting issues because there is not the data set necessary to do any sophisticated kind of modeling as there is, for example, for the gas tax.

The forecasts we receive are based on those that go to the Office of the Forecast Council, since a good share of these monies is deposited in the state general fund. Because the Liquor Board makes its forecasts for the state on a fiscal-year basis and cannot provide us with calendar-year forecasts, we simply take a weighted average of the two relevant fiscal year forecasts to get an estimate of the calendar-year forecasts.

We asked Rob Kirkwood of the Liquor Board to provide us with some narrative describing the factors that informed his estimates. He responded as follows:

The Fiscal Year 2003 forecast published by the MRSC was based on the Liquor Control Board's June 2002 Forecast. That forecast assumed dollar sales would increase by 3.00% and demand would increase by 0.00%. Actual sales data through May 31, 2003 is showing a 5.00% dollar increase and 2.00% increase in demand. The March 2003 Liquor Profit distribution adjusted for this increased revenue.

Fiscal years 2004 and 2005 forecasts reflect increasing Personal Income in Washington; historical patterns of price and consumption; and the Liquor Control Board's commitment to implement their Retail Business Plan. This plan includes a number of strategies to serve the public and at the same time increase profits that are distributed to State and Local Governments. One strategy that was approved for the 2003-05 Biennium was opening five new Liquor Stores during the 2003-05 Biennium.

He is incorrect in thinking that we show you his fiscal year forecasts because, as explained above, we cobble them together to get calendar year numbers. But, he does provide an explanation for the very high March 2003 distribution. We thought the board was going to start reviewing the collections every quarter, distributing any excess over the forecast on a quarterly basis to make the distributions more even. But, they appear to be holding the funds when receipts are unexpectedly high and then distributing them in one lump sum. We are sure that most of you did not think that the high March distribution portended similar distributions in the future.

City forecasts are in Tables 3 and 4; county forecasts are in Tables 5 and 6.

Criminal Justice Revenues

With the repeal of the motor vehicle excise tax, the only money that **cities** receive by statute comes from language that says that beginning July 1, 1999, a transfer would be made from the general fund to both city accounts under RCW 82.14.320 and RCW 82.14.330. Each transfer was appropriated originally at \$4,600,000, to be increased each July by "the fiscal growth factor," which is the average, for the last three years, of growth in state population and the growth in the implicit price deflator.

With the passage this year of SSB 5780 (see the discussion on pages 7-8), a total of 70 percent of the revenue distributed under RCW 82.14.330 will now be handed out on a purely per capita basis. As in the past, RCW 82.14.330(1)(b) distributes 16 percent of the pot on a per capita basis, with each city receiving a minimum of \$1,000, no matter how small their population. RCW 82.14.330(2) has been amended to delete the language that allocated certain percentages to innovative law enforcement programs, domestic violence

2004 MVFT Allocation Factors Estimated 2004 Revenues Motor Vehicle Fuel Tax for Counties		
June 2003 Revenue Forecast: \$146,673,000 County Roadlog Certified January 1, 2003		
County	2004 Allocation Percent	Estimated Revenue
Adams	2.7067	\$3,970,000
Asotin	1.0249	1,503,300
Benton	2.1940	3,218,000
Chelan	1.5778	2,314,200
Clallam	1.3353	1,958,500
Clark	4.2566	6,243,300
Columbia	0.9677	1,419,400
Cowlitz	1.5608	2,289,300
Douglas	2.3639	3,467,200
Ferry	1.1696	1,715,500
Franklin	1.8514	2,715,500
Garfield	0.8613	1,263,300
Grant	4.1479	6,083,800
Grays Harbor	1.5654	2,296,000
Island	1.4620	2,144,400
Jefferson	0.9455	1,386,800
King	10.0690	14,768,400
Kitsap	3.6530	5,358,000
Kittitas	1.3315	1,953,000
Klickitat	1.8045	2,646,700
Lewis	2.3095	3,387,400
Lincoln	2.8335	4,156,000
Mason	1.5263	2,238,700
Okanogan	2.2569	3,310,300
Pacific	0.9117	1,337,200
Pend Oreille	1.0654	1,562,700

County	2004 Allocation Percent	Estimated Revenue
Pierce	7.3516	10,782,800
San Juan	0.6584	965,700
Skagit	2.0483	3,004,300
Skamania	0.6049	887,200
Snohomish	6.7183	9,853,900
Spokane	7.3590	10,793,700
Stevens	2.4775	3,633,800
Thurston	3.3042	4,846,300
Wahkiakum	0.5598	821,100
Walla Walla	1.9469	2,855,600
Whatcom	2.5759	3,778,100
Whitman	2.7836	4,082,800
Yakima	3.8595	5,660,800
Total	100.00	\$146,673,000

Table 2

Summary of Local Share of State-Shared Revenues Total Dollar Amounts – 2001 to 2004 <i>(All Cities and Towns)</i>				
	2001	2002	2003 Revised	2004 Estimate
Gas Tax (unrestricted)	\$51,804,480	\$51,597,719	\$51,900,000	\$52,845,000
Gas Tax (restricted)	24,222,054	24,125,379	24,267,000	24,708,000
Profits of Liquor Board	18,952,876	19,590,672	21,400,000	22,450,000
Liquor Tax	11,824,411	12,605,447	13,050,000	13,506,000
Criminal Justice - former CTED programs	NA	NA	NA	2,632,000
Criminal Justice – Population-based	750,024	747,717	765,000	780,000
Total	\$107,553,845	\$108,666,934	\$111,382,000	\$116,921,000

Table 3

Per Capita Amounts – 1997 to 2004 <i>(All Cities and Towns)</i>								
	1997	1998	1999	2000	2001	2002	2003 Rev.	2004 Est.
Gas Tax (unrestricted)	\$15.36	\$15.41	\$15.30	\$15.12	\$14.66	\$14.38	\$14.11	\$14.13
Gas Tax (restricted)	7.18	7.20	7.15	7.07	6.85	6.72	6.60	6.61
Profits of Liquor Board	5.51	7.18	5.34	6.06	5.36	5.46	5.82	6.00
Liquor Tax	2.93	3.01	3.14	3.27	3.35	3.51	3.55	3.61
Criminal Justice - former CTED programs	NA	NA	NA	NA	NA	NA	NA	0.70
Criminal Justice – Population-based	0.38	0.38	0.46	0.27	0.21	0.21	0.21	0.21
Total	\$43.61	\$46.09	\$45.39	\$34.47	\$30.43	\$30.28	\$30.29	\$31.26

Table 4

Summary of Local Share of State-Shared Revenues Total Dollar Amounts – 2001 to 2004 <i>(All Counties)</i>				
	2001	2002	2003 Revised	2004 Estimate
Profits of Liquor Board	\$5,220,483	\$5,404,500	\$5,825,000	\$6,089,000
Liquor Excise Tax	2,660,486	2,774,708	2,881,000	2,993,000
Total	\$7,880,969	\$8,179,208	\$8,706,000	\$9,082,000

Table 5

Per Capita Amounts – 1999 to 2004 <i>(All Counties)</i>						
	1999	2000	2001	2002	2003 Rev.	2004 Est.
Profits of Liquor Board	\$1.83	\$2.16	\$2.17	\$2.23	\$2.40	\$2.58
Liquor Excise Tax	0.94	1.00	1.10	1.14	1.19	1.27
Total	\$2.77	\$3.16	\$3.27	\$3.37	\$3.59	\$3.85

Table 6

prevention programs, and child abuse prevention programs, with the requirement that the cities send in funding requests for each program to CTED. The funds for these three areas, totaling 54 percent of the pot, will now be distributed by the Office of the State Treasurer on a strictly per capita basis. There is a requirement that these funds be spent on some combination of innovative law enforcement programs, domestic violence prevention programs, and child abuse prevention programs, but no requirement of how much must be spent in each area. All the money can be spent in one area if a city wishes. In Tables 2 and 3, we identify the 16 percent distribution as “Criminal Justice – Population,” which is what the treasurer’s office calls it. The 54 percent distribution is labeled “Criminal Justice – Former CTED Programs.”

The distribution of 10 percent of the revenues to cities that contract for law enforcement services remains unchanged. Language was added to say that once the allocations are made in December for the coming year, they will not be changed. There will be no retroactive payments. It appears that one or more cities forgot to apply in a timely fashion and wanted the distribution changed to include them.

The remaining funds under RCW 82.14.330 and all the revenues under RCW 82.14.320 are handed out partially based on crime rates and we cannot forecast them. The cities that may qualify for these funds know who they are and are aware of the problems they have in estimating these revenues.

In spite of the passage of Initiative 695, **counties** are continuing to receive some state-shared criminal justice funding from the state general fund under the provisions of RCW 82.14.310. The initial appropriation, made for the state fiscal year 2000, was \$23.2 million. It is increased every July by “the fiscal growth factor,” which is the average, for the last three years, of growth in state population and the growth in the implicit price deflator. The county funding formula includes population, the crime rate of the county, and the annual number of criminal cases filed in superior court. Because revenues are not handed out on a strictly per capita basis, MRSC can provide no forecasts.

Fire Insurance Premium Tax

The state collects a two percent tax on the premiums of all insurance policies written. Twenty-five percent of the tax collected on fire policies, and the **fire component** of homeowner's and commercial multi-peril policies, are distributed to cities and fire districts that have firemen's pension funds. Premiums that attributed to losses from such things as burglaries, tornadoes, floods, etc., are not shared with cities. For the homeowner's and commercial multi-peril policies, actual data is collected on the loss experience due to fire as a percent of total losses. These percentages are then applied to the total premium taxes collected from these policies to get the taxes attributed to the fire component.

For the distribution in 2003, the amount of premium tax for all categories of insurance was much higher than we expected. In addition, the percent of losses attributable to fire in the homeowner's category was higher than “normal,” so more money was available for distribution to firemen's pension funds than we forecast. This resulted in a “ratio value” per firefighter of \$601 compared to the forecast of \$451.

For 2004, we are assuming there will be a one percent growth in the number of firefighters and that insurance premiums and, therefore, the taxes on them will increase by four percent, which is conservative given the trend we have seen the last few years. We have also assumed that the percent of losses due to fire in the homeowner's insurance category will drop to its historical norm. These assumptions produce a ratio value of \$580.

We want to remind our readers, once again, that these forecasts are completely dependent on fire loss experience and insurance premiums and we really have no way to forecast either, although we do know that the latter are currently increasing.

Distribution of Fire Insurance Premium Tax – RCW 41.16.050 <i>May 2003</i>			
City/District	Ratio Value	Number of Paid Firefighters as of January 1, 2003	Amount ¹
Aberdeen	\$600.84	35	\$ 21,029.28
Anacortes		18	10,815.06
Auburn		76	45,663.57
Bellevue		181	108,751.40
Bellingham		136	81,713.76
Bothell		49	29,440.99
Bremerton		49	29,440.99
Camas		34	20,428.44
Centralia		17	10,214.22
Chehalis		14	8,411.71
Edmonds		43	25,835.97
Ellensburg		22	13,218.40
Everett		176	105,747.22
Hoquiam		23	13,819.24
Kelso		12	7,210.04
Kennewick		71	42,659.39
Kent		149	89,524.63
Kirkland		65	39,054.37
Longview		41	24,634.29
Lynnwood		44	26,436.80
Mercer Island		29	17,424.26
Moses Lake		29	17,424.26
Mountlake Terrace		26	15,621.75
Mount Vernon		32	19,226.77
Olympia		79	47,466.08
Pasco		44	26,436.80
Port Angeles		22	13,218.40
Port Townsend		10	6,008.36

Distribution of Fire Insurance Premium Tax – RCW 41.16.050 <i>May 2003</i>			
City/District	Ratio Value	Number of Paid Firefighters as of January 1, 2003	Amount¹
Pullman		21	12,617.57
Puyallup		52	31,243.50
Raymond		13	7,810.87
Redmond		99	59,482.81
Renton		105	63,087.83
Richland		55	33,046.00
Seattle		1,010	606,844.82
Shelton		7	4,205.86
Spokane		316	189,864.32
Sumner		16	9,613.38
Sunnyside		15	9,012.55
Tacoma		388	233,124.54
Toppenish		6	3,605.02
Tukwila		61	36,651.02
Vancouver		155	93,129.65
Walla Walla		48	28,840.15
Wenatchee		31	18,625.93
Yakima		69	41,457.72
King County #2		34	20,428.44
King County #10		115	69,096.19
Spokane County #1		135	81,112.92
Totals		4,277	\$2,569,777.54
<p>¹The amounts shown in the fourth column are the actual distributions by the state. However, if one multiplies the ratio value shown by the number of firefighters in each row, the results are slightly different from the actual amount shown. We have displayed the ratio value as rounded to two decimal places; the actual ratio value used by the state had nine decimal places.</p>			

Table 7

What's Ahead for Cities and Counties in 2005?

This is usually the section in which we report on the possibilities of incorporations and annexations that might result in significant changes in state-shared revenues for the year after next. There really are no such events on the horizon for 2005. Supporters of the incorporation of Frederickson, in Pierce County, are aiming for an election in September 2003. If the incorporation is approved by the voters, the new city would get state-shared revenues for one quarter in 2004 and the entire year of 2005. Their estimated population is 10,500. Since this would increase the city population (and reduce the unincorporated population) by only 0.3 percent, the impact on per capita state-shared revenues would be minimal and we are not providing a separate forecast for revenues if the incorporation takes place. Note that the Liquor Board could provide no forecast for FY2006 (which is needed to estimate the last half of calendar year 2005). We just arbitrarily increased the 2004 forecast by two percent.

City Per Capita State-Shared Revenue Estimates – 2005	
Gas tax (restricted)	\$6.77
Gas tax (unrestricted)	14.49
Liquor board profits	6.05
Liquor excise tax	3.64
Criminal Justice (former CTED programs)	0.71
Criminal Justice (population)	0.21
Total	\$31.16

County Per Capita State-Shared Revenue Estimates – 2005	
Liquor board profits	\$2.64
Liquor excise tax	1.29
Total	\$3.93

Public Development Authorities¹

by Jay Reich, Stacey Crawshaw-Lewis and Deanna Gregory,
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Public development authorities, or PDAs, can be established by cities or counties pursuant to RCW 35.21.730 *et seq.* to perform public functions that the creating city or county could perform itself. PDAs are instrumentalities of their creating jurisdiction. PDAs are often created to manage the development and operation of a single project, which the city or county determines is best managed outside of its traditional bureaucracy and lines of authority. The particular project may be entrepreneurial in nature and intersect with the private sector in ways that would strain public resources and personnel. For example, the Pike Place Market is a City of Seattle PDA and essentially acts as the landlord to scores of retail establishments and nonprofit services provided in a series of historic buildings. The City of Seattle has determined that day-to-day operations of such an enterprise is best managed by professionals independent of the City, given the untraditional nature of the enterprise and the importance of responding to the unique needs of the private retail marketplace.

The following questions and answers discuss PDA powers, formation, governance, potential uses, advantages, disadvantages and applicable legal requirements.

A. What Are Public Development Authorities?

PDAs are public corporations created by a city or county to perform a particular public purpose or public function specified in the ordinance or resolution creating the PDA and its charter. RCW 35.21.730. Although PDAs may be created for a general purpose, PDAs are more often created for a specific project or undertaking reflected in the PDA's charter.

B. Why Are Public Development Authorities Formed?

PDAs are created to (1) administer and execute federal grants or programs; (2) receive and administer private funds, goods or services for any lawful purpose; and (3) to perform *any lawful public purpose or public function*. RCW 35.21.730(5). Such undertakings may be specified in the PDA's charter. PDAs are frequently created to undertake a specific project or activity requiring focused attention. PDAs tend to be more entrepreneurial than their sponsoring municipality, involving private sector participants as board members or partners. PDAs allow municipalities to participate in projects that they may be otherwise disinclined to partake in due to project risks and competing priorities of the municipality.

While PDAs have broad statutory authority to perform any lawful public purpose or public function, PDAs cannot undertake a public function that the creating city or county could not lawfully perform. *See* Memorandum Opinion of the Attorney General of Washington to Robert V. Graham, State Auditor, March 10, 1989. A PDA is thus limited to perform only public purposes or public functions that the creating municipality may undertake directly. A PDA may be limited further by specific reference to a particular undertaking in the PDA's charter.

¹ Editor's note: MRCS has a Web site on PDAs at <http://www.mrsc.org/Subjects/Econ/ed-pda.aspx>

C. What Powers Do Public Development Authorities Have?

The powers of a PDA are provided in chapter 35.21 RCW. PDAs may:

- Own and sell real and personal property;
- Contract with a city, town or county to conduct community renewal activities;
- Contract with individuals, associations, corporations, the State of Washington and the United States;
- Sue and be sued;
- Loan and borrow funds and issue bonds and other instruments evidencing indebtedness;
- Transfer funds, real or personal property, property interests or services;
- Engage in anything a natural person may do; and
- Perform all types of community services.

D. How Are Public Development Authorities Formed?

A city or county may form a PDA by passing an ordinance or resolution approving the PDA's charter. The charter will include the PDA's name, scope of the project or purpose, the term of the PDA, and board characteristics. The charter may provide for municipal oversight and will limit the liability of the creating municipality. Because PDAs are separate legal entities, all liabilities incurred by the PDA must be satisfied exclusively from the assets of the PDA, except as otherwise agreed by contract. PDA creditors do not have any right of action against or recourse to the creating municipality, or its assets, on account of the PDA's debts, obligations, liabilities or acts or omissions.

E. How Are Public Development Authorities Governed?

The PDA's charter establishes the PDA's governing body composition, size, and nomination process. RCW 35.21.730 *et seq.* does not require any particular board composition and, therefore, the creating city or county has significant latitude in crafting a governance structure suited to the PDA's purpose. For example, PDA boards are often composed of persons with particular technical expertise (financing, construction or legal) and persons who represent key stakeholders.

The PDA's charter also usually determines the term of the PDA. The charter may include a sunset provision, which may automatically dissolve the PDA upon completion of the project or its financing. Alternatively, if the PDA has a broader mandate encompassing numerous phases of an ongoing project or a general endeavor, the PDA's existence may be indefinite. PDA staffing, administrative costs, and oversight requirements may vary as the particular undertakings differ.

The creating municipality will have limited control over the PDA, but will not be relieved of all oversight responsibility. By statute, the city or county is required to oversee and control the PDA's operations and funds in order to correct any deficiency and to assure that the purposes of each project are reasonably accomplished. *See* RCW 35.21.745. The PDA's accounting and other responsibilities to its creating city or county may be identified in the PDA's charter and serve to assist the city or county in meeting its oversight obligations. The municipality may further specify the level of autonomy, accountability, and control it will

have over the PDA in the PDA's charter or in any contracts or leases the municipality executes with the PDA.

F. What Type of Projects Can Public Development Authorities Construct, Operate and Finance?

A PDA may undertake any "public purpose" specified in the PDA's charter and that is a lawful public purpose or undertaking of the creating municipality. Examples of projects include developing the Seattle Art Museum, assisting in the development of the Museum of Flight at Boeing Field in King County, developing City Hall on Mercer Island, restoring Officers' Row in Vancouver, managing the Pike Place Market in Seattle, and developing the Convention Center in Bellevue.

G. What Resources Do Public Development Authorities Have?

PDA's do not have the power of eminent domain or the authority to levy taxes. RCW 35.21.745. A PDA may borrow funds or issue tax-exempt bonds. Despite broad authority to undertake various projects, PDA financing is generally project specific. To facilitate access to the financial markets, PDA project financings are often backed by a city or county guarantee, typically in the form of a contingent loan agreement. A creating city or county may adopt an ordinance authorizing the transfer of property or funds to a PDA. RCW 35.21.730. Property and funds frequently transferred to a PDA include real property and operating funds. A creating municipality can control and oversee how the PDA uses the transferred property by placing terms and conditions on a PDA's use of such property in the transferring documentation.

A transfer of property or funds to the PDA from the creating city or county does not violate the constitutional prohibition on the lending of credit or giving of public funds by a city, county or other municipal corporation. Article VIII, Sections 5 and 7 of the Washington Constitution prohibit the lending of public credit or gift of public funds to private entities. This prohibition does not apply to transfers between municipal agencies and is therefore not violated when a parent city or county transfers funds to its PDA. *See State ex rel. Wash. Toll Bridge Auth. v. Yelle*, 56 Wn.2d 86, 104, 351 P.2d 493 (1960); *Mount Spokane v. Spokane County*, 86 Wash. App. 165, 936 P.2d 1148 (1997), *review denied*, 133 Wn.2d 1021 (1997).

H. Can Public Development Authorities Issue Tax-Exempt Bonds?

PDA's can issue tax-exempt bonds pursuant to RCW 35.21.735. As noted above, PDA's do not have taxing authority, and so can pledge only project, grant or other revenues to repay bonds.

In order to access financial markets at attractive rates, PDA project revenue bonds are often backed by a city or county guarantee or contingent loan agreement. If the agreement is contingent in nature, it should not be a debt of the city or county for the purposes of constitutional and statutory debt limitations, but will need to be identified on the city or county financial statements.

There are numerous federal tax law considerations that a PDA must take into account when financing a project with tax-exempt debt. For the bonds to be tax-exempt, the project must be used for a public purpose, as opposed to a private activity, and must be repaid from public funds and not private sources. Any private management contract must meet the safe harbor provisions under the federal tax code. All of these issues would need to be reviewed by bond counsel.

I. What Are Examples of Recent Public Development Authority Projects?

Recent projects completed by PDA's include the Village Square project completed in two phases by the Seattle Chinatown-International District Preservation and Development Authority ("SCIDPDA"), a PDA

created by The City of Seattle. The project includes affordable family housing, a Seattle Parks Department recreation center and Seattle Public Library branch, as well as senior housing, retail space and space for health and social service non-profit agencies.

The Foss Waterway Development Authority, a PDA created by the City of Tacoma, facilitates redevelopment of previously contaminated areas of Tacoma's Foss Waterway, entering into agreements with private developers interested in developing parcels in a manner consistent with the City's plan for the Waterway.

The Seattle Art Museum is a tenant in the museum owned by the Museum Development Authority, a PDA formed by The City of Seattle. The PDA Board is composed in part of members nominated by the Seattle Art Museum. The PDA is undertaking an expansion of its space. Washington Mutual, the Seattle Art Museum and the PDA are planning for joint development of a 40-story downtown tower that would provide new corporate headquarters for the bank and allow the museum ultimately to triple in size.

J. What Are the Disadvantages and Advantages of Forming a Public Development Authority?

A potential disadvantage of forming a PDA is the relatively low level of control the creating city or county has over the PDA or the project. Although the creating municipality has oversight responsibilities for PDA operations to assure the purposes of the PDA are fulfilled, generally the creation, management, and facilitation of the project is in the hands of the PDA's governing board. Despite contract or charter provisions providing for oversight and control over the PDA, the PDA remains autonomous. The lack of control over the project and the PDA, however, may be beneficial for the city or county for it reduces liability and financial risk for the city or county. A PDA also provides a vehicle for a city or county to support a project without diverting city or county staff to the undertaking and to attract private citizens to serve on the PDA board.

K. What Legal Requirements Apply to Public Development Authorities?

Generally, a PDA is subject to all "general laws regulating local governments, multimember governing bodies, and local government officials." RCW 35.21.759. Such legal requirements include, but are not limited to, compliance with the following laws:

- To be audited by the State auditor and to be subject to various accounting requirements provided by chapter 43.09 RCW;
- Open public record requirements under chapter 42.17 RCW;
- Open public meetings and other public process laws as provided in chapter 42.30 RCW;
- Public works requirements under chapter 39.04 RCW;
- Competitive bidding and prevailing wage laws provided in chapter 39.04 RCW;
- Local government whistleblower laws as provided in chapter 42.41 RCW;
- The prohibition on using PDA facilities for campaign purposes under RCW 42.17.130; and
- The Code of Ethics for municipal officers under chapter 42.23 RCW.

A PDA is also subject to constitutional constraints imposed on local governments, primarily limiting the use of public funds. As described above, Article VIII, Sections 5 and 7 of the Washington Constitution prohibit the lending of public credit or gift of public funds to private entities, with limited exceptions. Furthermore, Article VII, Section 1 and Article VIII, Section 6, require that public debt be incurred and taxes levied exclusively for public purposes. Such constitutional constraints are often triggered when a PDA is formed to encourage private sector investment.

Editor's Note: We want to emphasize how important it is that everyone who is or will be involved with a PDA read and understand the above section on legal requirements.

City and county staff know that it is sometimes hard to educate newly elected officials in these matters. Some of the restrictions under which local governments operate seem so, well, "restrictive!" Businessmen often tell us that they would not be able to make a profit if they had to run their businesses under these same laws. One PDA board commissioner has been quoted as saying, "My God, we're so constrained by so many rules, what's the point of it all? You can't turn around without stepping into a legal minefield."

This may be particularly true when a city or county wants to form a PDA to promote economic development. Economic development practitioners often cannot believe that cities and counties (and, therefore, PDAs) cannot do promotional hosting with public funds. (They work with port districts and those districts CAN use public funds for promotional hosting.) Serving coffee or soft drinks at a meeting is about the most that can be done by cities, counties, and PDAs.

What PDAs can and cannot do with a private partner can be complicated legally. To traverse the "legal minefield" safely, PDAs should work with attorneys experienced in municipal law and with PDAs in particular.

Biennial Budgets in Washington's Cities and Counties¹

by Mike Bailey, Finance Director, City of Lynnwood

Budgeting for a two-year biennium has been permitted for Washington cities since 1985 and for counties since 1995. This article will discuss the various experiences of those cities and counties that have switched to a biennial budget and draw some conclusions about the usefulness of such an approach.

Approximately twenty-five cities and three counties have worked with some form of biennial budgets since the legislature created this alternative. While the law generally describes how biennial budgets can be structured, we found there are a variety of approaches being used. Of the twenty-five cities that have used the multi-year approach, five have reverted back to a traditional one-year budget.

Legislative Authority

In 1985, the Washington State Legislature adopted the Municipal Biennial Budget Act, permitting all cities in Washington State to establish a biennial, or a two-year budget. The legislature granted the same authority to counties in 1995. The law permits cities and counties to adopt a two-year appropriation. An appropriation represents a local government's legal authority to expend funds. Traditionally, the appropriations have been for one-year terms. Biennial budgets have extended this legal authority so that a city or county legislative body may approve an appropriation, or budget, for a full two-year term without subsequent action.

Cities are required to make the decision for a biennial budget by ordinance. The legislative authority for cities is found under RCW 35.34 (or 35A.34). This ordinance must be adopted at least six months before a biennium can start and a biennium must start on an odd numbered year. For instance, to begin using a biennial budget for 2005/2006, a city council must adopt an ordinance choosing to use a biennial budget by June 30, 2004. Once a city is using a biennial budget, it can revert back to an annual budget, by ordinance, at the end of a biennium.

Counties find the authority for biennial budgets in RCW 36.40.250. They have more flexibility in choosing when to start their first biennium and when the ordinance or resolution providing for a biennial budget must be adopted.

Reasons for Using a Biennial Budget

Saves Time. The most common reason for using a twenty-four-month appropriation seems to be to consolidate the amount of effort invested in the budget development and approval process. This is true of

¹ Editor's note: Judy Cox of MRSC served as Mike Bailey's research assistant for this article. Any errors of omission and commission regarding how the individual cities and counties are actually doing their biennial budgets are hers alone.

both the staff preparing the budget materials and of the councils who review the materials and eventually adopt a budget.

While it is agreed that it takes more effort and time to prepare a twenty-four-month budget than one for the traditional twelve months, it does not take *significantly* more time. As a result, over the two-year period, there is a substantial time savings. While this benefit may be obvious as it relates to the staff, the council will also realize a significant time savings that can be invested in other matters.

In our case (Lynnwood), we have chosen to invest this time savings in other budget related matters, such as strategic planning and performance measurement. We created a team of managers who oversee our performance management program. This team realized that the significant amount of time devoted to the annual budget made it difficult to invest adequate time in the performance management aspects of our budget and control systems. As a result, the team recommended to the city council that we adopt a biennial budget process. While we are in our first biennium, the success of this strategy is already apparent. This summer and fall, our staff is working to refine its strategic plans. The council will be able to devote time to use these plans more effectively in directing city resources over future years.

Longer Perspective. Another advantage for the use of a biennial budget is the longer perspective it gives the organization in its budgetary planning. Multi-year financial planning has been a recommended practice for a long time (see “Government Finance Officers Association Recommended Practices”). Some cities and counties use these “financial plans” to guide the formal budgeting that occurs each year. These financial plans do not have the form of an appropriation in an ordinance, so while they help provide focus, they do not take the place of a budget. A biennial budget extends the planning horizon of the official budget appropriation itself. This can be good, but it can also introduce difficulties to the process related to forecasting (discussed below).

Potential Improvement in Policy View. A variation on the “Longer Perspective” argument is the substantial time available to the policy makers to strategically address financial issues. When budgeting every year, the focus is on how to balance each budget rather than on overall strategic planning. Finding the time to think strategically was often difficult. The biennium helps create this time and focus attention on future biennia, rather than just finding a way to balance revenues and expenditures.

Political Implications. Currently, an annual budget means that every other budget is developed in the context of elections for many of the policy makers. By design, the city biennial budget is considered in non-election years, as the biennium must be started in odd-numbered years. Counties can also choose this timing as well. Even if politics do not complicate the budget decision-making, the elections take a significant amount of a policy maker’s time.

Reasons Against Using a Biennial Budget

Some cities (five by our count) have tried biennial budgets and reverted back to annual budgets. Their reasons coincide with those we have heard arguing against using a biennial budget.

Loss of Control. One of the concerns expressed was a loss of control over budgeted expenditures. While we are not aware of any examples of serious budget problems attributed to the use of a biennial budget, loss of control was identified as a problem significant enough to lead some cities to revert back to an annual budget. In one of these situations, the city council felt it lacked adequate control over the budget and initiated the return to an annual budget.

Change in Leadership. In a few examples, a new finance director or new city manager did not want to use a biennial budget. The reasons stated were concern over the extended term of the forecasts and the potential for changes in economic conditions. This is more likely in situations where someone new to the city is faced with making these important recommendations.

Difficulty in Forecasting. Another reason cited against the use of biennial budgets is the difficulty in forecasting variable expenditures. Two-year budgets require that all the estimates and forecasts, which were already difficult enough to do for twelve months, are now to be done for a twenty-four-month period. Forecasting sales taxes, medical benefit costs, changes in pay for staff, and many other variables in a budget can be tricky. It is *more* than twice as tricky for twice the period of time. Changes in the economy, in state and local laws, and other changes may further complicate the ability to develop accurate estimates for budget development.

Forms of Biennial Budgets

The concept of a two-year appropriation is pretty straightforward and just like it sounds. Rather than a twelve-month window during which the appropriated funds can be legally committed to accomplish the purpose of the government, a biennium provides for a twenty-four-month window. However, while a true biennial budget simply doubles the length of time for which the budget is effective, many cities and counties have adopted variations of this theme.

The reasons why governments choose to use a biennium, and some of the arguments against such a choice, help describe some of the various forms of biennial budgets that we see in use today. The two-year budget is touted as an opportunity to widen the budget planning horizon and allow more long-term thinking to be a part of the financial planning that the budget represents. This is one of the most common reasons we hear for the use of a biennial budget. On the other hand, we *do not* hear governments choosing this approach because of the greater latitude it provides staff to spend their appropriation over the course of the twenty-four months.

Some of the concerns about using a biennial approach are that staff may not discipline themselves adequately and may spend more of the budget than they should too early in the biennium. As a result, a number of cities and counties choose to restrict access to the second year of the biennium. This restriction is often implemented through the actual ordinance or resolution adopting the biennial budget itself. In other cases, there is no real limitation, but all the reports and budget analysis are done for each separate year.

Seattle, for example, appropriates funds for the just first year and displays numbers for the second year in their budget as “planned.”

Seven cities (of the nineteen that we know adopt biennial budgets) and two of the three counties adopt two one-year budgets in their ordinances or resolutions.

The remaining eleven cities and one county use a true, two-year appropriation in their budget ordinances (or resolution) However, they do not all display this information in their published budgets in the same fashion or really allow expenditures to take place in the manner implied.

Six cities and one county show the expenditures in their budget document for the two years together, in a single column. They have “planning” budgets internally for the individual years, but they do not seem to be concerned about their department heads overspending their plans in the first year. One city told me that since they had instituted this system, they have had department heads underspending their budgets in the first year.

Five cities put two columns in their budget documents, but they are just externally disclosed planned amounts. If a department head overexpended the planned amount, he or she would not be in violation of RCW 35.34.210 or RCW 35A.34.210.

Finally, there are two cities that adopt their budgets with an appropriation for the full two years and in their budget show their expenditures in a single column for full two years, but tell their department heads that they are “restricted” in the first year to the internal spending plan.

As you can see, there are a number of ways to do biennial budgets, and it is not always possible to tell from the budget document which approach is being used.

A chart of the cities and counties that use biennial budgets (at least as best we can tell) can be found at the end of this article. Some of the unique characteristics of the individual approaches are listed as well.

Requirements for a Biennial Budget

As previously discussed, an ordinance (or resolution for counties) must be adopted that opts for a biennial budget process. In the case of cities, the biennium must start on an odd-numbered year (2005 would be the next opportunity). The ordinance to use a biennial budget must be adopted at least six months prior to the start of the biennium (again this applies to cities only).

The requirement for cities spells out the steps for developing a biennial budget, while the county statute refers to the annual budget process for guidance. Actually, the required steps for an annual budget development and a biennial budget are very similar. One distinction is the requirement for a “mid-biennium review.” This review is to start no sooner than September 1 and be completed by the end of the year. The purpose of the review is essentially to tune up the budget for any needed refinements. The review requires a public hearing if any changes are recommended to the budget. As in many of the other provisions related to biennial budgets, the requirements for the mid-biennium review are spelled out in detail for cities and very generally for counties.

As previously indicated, the decision to revert to an annual budget must be made by ordinance and can be effective only at the end of a biennium.

More on Personal Experiences

Implementing our biennial budget was, in many respects, not overly difficult. There were some problems, especially in fully understanding the extent to which the second year would require changes to the final consideration of budget decisions.

The development of the forms and assumptions used in the budget was pretty straightforward. Adding the second year to the forms was easy, with the exception of the payroll and benefits forms and the forms for new program proposals. While adding a second year to these was not difficult, we had to agree on which assumptions to use for pay and benefits. Based on the formats we chose, the year that different, new programs were to begin was also at times unclear. Our success depended on constant communication and the cooperation of department staff working to develop the budget.

I would say the biggest difficulty we had was focusing on the full twenty-four-month period during budget deliberations with the city council. It seemed that our discussions focused far more on the first twelve

months, at the expense of the second half of the biennium. This was so extensive that there was a fair amount of confusion about what the second twelve months included. It didn't help that the contracting economy also significantly complicated the budget process.

Overall, we believe the advantages of the biennial budget significantly outweigh the disadvantages. It is our hope that the discussions in this article have enabled you to evaluate whether a biennial budget is right for you. If you still have questions, feel free to contact me at the City of Lynnwood.

Cities and Counties That Do Biennial Budgets

Cities	Started	Ended	Form	Comments
Bellevue	97/98		Appropriation for two years	Each year shown separately in budget document.
Bothell	03/04		Two one-year budgets	
Bremerton	?	2002		New finance director hired late.
Federal Way	97/98		Two one-year budgets	
Kennewick	95-96		Appropriation for two years	Two-year total shown in budget document.
Lakewood	03/04		Two one-year budgets	
Longview	97/98		Appropriation for two years	Two-year amount shown in budget document.
Lynnwood	03/04		Appropriation for two years	Each year shown separately in budget document.
Marysville	?	?		Council felt it lost control.
Mercer Island	91/92		Appropriation for two years	Budget document shows two-year total, but expenditures are "restricted" for second year.
Mill Creek	97/98		Appropriation for two years	Two-year total shown in budget document.
Monroe	91/92	1993		Huge growth made second year hard to forecast.
Mountlake Terrace	03/04		Two one-year budgets	
Normandy Park	99/00		Two one-year budgets	
Oak Harbor	?		Two one-year budgets	
Ocean Shores	03/04		Two one-year budgets	
Olympia	Mid-80s	Mid-80s		New city manager.
Port Angeles	87/88	1993		Did not save enough time.

Cities	Started	Ended	Form	Comments
Redmond	97/98		Appropriation for two years	Two-year total shown in budget document.
Seattle	97/98		Appropriation for one year	Second year shown as "planning" in budget.
Steilacoom	95/96		Appropriation for two years	Two-year total shown in budget document.
Tacoma	91/92		Appropriation for two years	Two-year total shown in budget document.
Toppenish	87/88	1989		
University Place	99/00		Two one-year budgets	
Vancouver	85/86		Appropriation for two years	Budget document shows two-year total, but expenditures are "restricted" for second year.

Counties	Started	Ended	Form	Comments
Clark County	99/00		Appropriation for two years	Two-year total shown in budget document.
Cowlitz County	02/03		Two one-year budgets	
Kitsap County	03/04		Two one-year budgets	

Identity Theft¹

by Gail Heinselman, CTP, Vice President, Government
Banking Division, U.S. Bank

Credit rating or scoring has long been judged an objective and accurate measure of our character and capacities for credit debt. The scoring can determine whether we will be able to obtain loans, rent cars, buy homes and equipment, get admitted to hospitals, or join health clubs. It also may affect our automobile insurance rates, volunteer opportunities, and employment.

According to the Federal Trade Commission, Identity Theft Clearinghouse, Associated Press: "It takes an average of \$1,173 and 175 hours actively working to clean up credit reports and other complications." It is further estimated that 600,000 people each year will be a victim of identity theft. The impact of this crime is considered repetitive, as the violation is revisited each time another bogus bill or collection item comes to the mailbox.

Wait, it can get worse. Sometimes identity theft victims are wrongfully accused of crimes committed by the imposter. The imposter gets stopped for a traffic violation and gives your driver's license to the police officer for identification. The citation is signed for by the imposter with the agreement to show up in court. When the appearance default is logged, a bench warrant is issued under your name. Later, you are stopped for a traffic violation and may be taken into custody and booked because of the bench warrant you did not know about.

You may ask yourself "how did this happen?" When your purse was stolen? When you filled out that cell phone application at the electronics store? Did someone steal your incoming mail that had pre-approved credit checks or credit card application offers? Or did someone steal the bill payments that you put out for the postman? Maybe it happened when you signed in at the dentist or doctor's office and the appointment log requested your insurance member identification number, which also happens to be your social security number.

Identity theft has two categories: "account takeover," where the thief uses your actual existing credit card account information and adds purchases. The second is "application fraud," where the thief becomes an imposter using your social security number and other personal information and is able to open new accounts, obtain loans to purchase cars, cell phones, vacations, services, etc. Typically, related statements are mailed to a new address and you are left unaware until after collection processes are underway.

Victims, for the most part, are not responsible for more than the first \$50 of the loss. However, a bad credit report can be exhausting to correct. Be proactive in your approach to protect yourself from this crime. The following recommendations can make it more difficult to victimize YOU.

- Shred all credit card and loan applications. It has been recommended that a cross-shredder is the most efficient in destroying information.

¹ Editor's note: After hearing Gail speak at a conference, Judy Cox of MRSC asked her to submit an article for *Budget Suggestions*. Her submittal is on a personal finance topic rather than public finance, but it contains valuable lessons for all of us.

- Have check orders sent to your local bank branch, not your mailbox.
- Use a post office for delivery and drop-off of mail. It is much safer than a street or building mailbox.
- Keep a photocopy of your wallet contents. Front and back copies of credit cards provide the phone number to call in case of theft as well as the account number.
- Order a credit report once a year.
- Always take credit receipts with you. Put them in your wallet, not in the bag. It is easy to forget the receipt is in the bag and throw the bag away without destroying the receipt.
- Install a firewall on your computer if you use DSL or cable modem access.
- Use a strong “wipe” utility program to delete files on the computer before you dispose of it.
- Keep cancelled checks in a safe place.
- Don’t give out your social security number (SSN) or other personal financial information over a cordless or cell phone. Scanners are used to intercept this information.
- Examine your social security earnings and benefits estimate statement each year. The report will show fraudulent attempts to use your SSN for employment.

What should you do if you become one of the 600,000 identity theft victims this year? Here are suggestions from the Privacy Rights Clearinghouse, a nonprofit consumer advocacy organization that has assisted victims of identity theft for a decade. www.privacyrights.org

First, place a “fraud alert” at the credit bureau. The initial alert, when placed by phone, lasts 90-180 days on your statement. It is recommended by Privacy Rights Clearinghouse prc@privacyrights.org that you increase the alert to seven years. This request must be in writing to each of the credit bureaus. If there are any attempts to open any credit in your name, the credit grantor will contact you first. However, this is not a guarantee, as some creditors do not pay consistent attention to these alerts.

Immediately contact the fraud units of the three major credit reporting agencies:

Equifax (800) 525-6285
Experian (888) 397-3742
TransUnion (800) 680-7289

Each credit bureau will provide you with a free credit report after the initial notification to flag your file with the alert. You can cancel fraud alerts at any time. A unique number will be assigned to your credit report. Save all credit reports, affidavits, and other documentation as part of your fraud case.

Ask credit bureaus to provide the names and phone numbers of credit grantors, by phone and in writing, with whom fraudulent accounts have been opened. Again, keep copies of this documentation. Creditors may ask you to fill out fraud affidavits. The Federal Trade Commission provides a uniform affidavit form that most creditors accept. www.consumer.gov/idtheft/affidavit.htm

Next, report the crime to your local law enforcement officials. Law enforcement agencies of each area in which the crime occurred should also be notified. The police report should list the fraudulent accounts. Request a copy of the report to keep with other documentation. Retain the phone number, fax number, e-mail address, and street address of the investigator to give to creditors and others who require verification of your case. Credit card companies and banks may require you to present a copy of the police report in order to verify the crime.

Also, get new account numbers assigned for checking and credit cards if existing credit accounts have been used fraudulently. It has been suggested that old accounts be processed as “account closed at consumer’s request” rather than “lost or stolen” as the latter can be interpreted as the identity theft being partially your fault. The addition of passwords makes it easier for financial institutions to distinguish you from the imposter.

If you have had checks stolen or bank accounts set up fraudulently, report it to the appropriate check verification companies. Put stop payments on any outstanding checks that you are unsure of. Cancel your checking and savings accounts and obtain new account numbers. If your own checks are rejected at stores where you shop, contact the check verification company that the merchant uses. Report fraudulent use of your checks:

CheckRite (800) 766-2748
Chexsystems (800) 428-9623
Cross Check (800) 843-0760
Certigy/Equifax (800) 437-5120
TeleCheck (800) 710-9898
International Check Services (800) 526-5380

If your ATM or debit card has been stolen or compromised, report it immediately. You may be liable if fraud is not reported quickly. Be sure to read the debit card contract for information on your potential liability.

Notify the local postal inspector if you suspect an identity thief has filed a change of your address with the post office or has used the mail to commit fraud. Call to obtain the address where any fraudulent credit cards were sent. Ask the local postmaster at that address to forward all mail in your name to your own address. Call (800) 275-8777 or www.usps.gov/websites/depart/inspect

Contact the Social Security Administration if you believe there may be fraudulent use of your SSN for welfare or social security benefit fraud. They do not handle cases of financial or criminal identity theft. Also order a copy of your Personal Earnings and Benefits Statement and check it for accuracy. The thief might be using your SSN for employment purposes. Report fraud: (800) 269-0271 oig.hotline@ssa.gov or on the Web at www.ssa.gov. Order Earnings and Benefits Statement: (800) 772-1213.

Next, you will want to put a fraud alert on your driving record if you think someone is using your driver’s license as ID on bad checks or for other types of fraud. This can be done by calling the Department of Licensing at (360) 902-3900. More information can be found at <http://www.dol.wa.gov/ds/faq.htm#victim>.

According to the Identity Theft Resource Center, “If debt collectors attempt to require you to pay the unpaid bills on fraudulent credit accounts, ask for the name of the company, the name of the person contacting you, phone and address. Tell the collector that you are a victim of fraud and are not responsible for the account. Ask the collector for the name and contact information for the referring credit issuer, the amount of the debt, account number, and dates of the charges. Follow up in writing that you do not owe the debt and that the

account has been closed.” Additional information on dealing with debt collectors is available from the Identity Theft Resource Center, www.idtheftcenter.org, under “victim resources”.

Use a loose-leaf notebook rather than a box for the documentation evidence. File all documentation immediately. Keep all documentation in chronological order. Remember this is evidence. Don’t let it pile up on your desk or counter.

The very act of documenting and retaining evidence of this crime of identity theft gives the victim a sense of control. Taking back what really is yours. After all, the majority of the responsibility for correcting your credit lies with you. Since our culture continues to use the credit evaluation service to validate who you are, you better make sure it is really you they evaluate!

The tips for consumers and victims provided in this article were adapted from Privacy Rights Clearinghouse, San Diego, CA. Be sure to visit their Web site: www.privacyrights.org or email: prc@privacyrights.org. Additional information and resources are available from this site.

Levy Lid Lifts¹

With the passage of 2ESSB 5659 this year (Ch. 24, Laws of 2003, 1st Special Session), there are now two different approaches to a levy lid lift. They have different provisions and advantages. We will explain how to calculate how much you can raise from a levy lid lift and then discuss both types and how they work.

How Much Revenue Can You Raise from a Levy Lid Lift?

Start by calculating the difference between your current tax rate and the maximum guaranteed statutory rate. If you do not know your current rate, ask your assessor.

Maximum Statutory Tax Rate: **Cities**, along with counties, are senior taxing districts and their maximum tax rates differ, depending on whether they have a firemen's pension fund or whether they are annexed to a fire district and/or a library district.

The maximum regular property tax levy for most cities is \$3.375 per thousand dollars assessed valuation (AV). *RCW 84.52.043(1)(d)*. Some cities have a firemen's pension fund. (If you do not know whether you have one, you probably do not.) Those cities can levy an additional \$0.225 per thousand dollars assessed valuation, resulting in a maximum levy of \$3.60 per thousand dollars AV. *RCW 41.16.060*.

For cities that belong to a fire district and/or a library district, the rules are a little more complicated. Nominally they have a maximum rate of \$3.60 per thousand dollars AV. But, they can never collect that much because the levy of the special districts must be subtracted from that amount. *RCW 27.12.390 and RCW 52.04.081*. The library district levy has a maximum rate of \$0.50 per thousand dollars AV (*RCW 27.12.050*) and the fire district levy can be as high as \$1.50. *RCW 52.16.130, RCW 52.16.140, and RCW 52.16.160*. Therefore, if a city belongs to both a fire district and a library district, and if these districts are currently levying their maximum amount, then the local levy can be no higher than \$1.60 ($\$3.60 - .50 - 1.50 = \1.60).

For **counties**, the maximum regular property tax levy rate that may be imposed on real and personal property is \$1.80 per thousand dollars AV for its current expense or general fund, and \$2.25 per thousand dollars AV for its road fund. However, a county can raise its general fund levy rate up to \$2.475 per thousand dollars AV, provided the total of the levy rates for the general fund and road fund do not exceed \$4.05 per thousand dollars AV **and** the increase in the general fund levy does **not** result in a reduction in the levy of any other taxing district.

Multiply the difference between your maximum rate and current rate by your AV divided by 1000 because the tax rate is levied on each thousand dollars of assessed valuation, not each dollar.

Example. A city has a maximum tax rate of \$3.375 per thousand dollars. Its current rate is \$2.90 and its assessed valuation is \$100,000,000.

$$\$3.375 - 2.90 = \$0.475.$$

$$\$0.475 \times 100,000,000/1000 = \$47,500.$$

¹ We have a levy lid lift page on our Web site where we give examples of ordinances and other information. <http://www.mrsc.org/Subjects/finance/levylidlift.aspx>

\$47,500 is the maximum amount of **extra** revenue the city could get in its first year after doing a levy lid lift. Its total levy, if the vote on the lid lift is successful, would be \$337,500 compared to \$290,000 without the lift.

If the council is not be interested in that big an increase in the rate, multiply whatever rate increase they have in mind times your assessed valuation divided by 1000.

If you think you want to explore the idea of a levy lid lift further, what are your options?

Option 1: “Original flavor” lid lift. RCW 84.55.050, with the exception of new subsections (3)(b) and (e).

1. Purpose. It can be done for any purpose and the purpose may be included in the ballot title, but need not be. You could say it would be for hiring more firefighters, for additional money for general government purposes, or say nothing at all. In the latter case, by default, it would be for general government purposes. Stating a particular purpose may improve your chances of getting the voters to approve it.
2. Length of time of lid lift. It can be for any amount of time unless the proceeds will be used for debt service on bonds, in which case the maximum time period is nine years. Setting a specific time period may make the ballot measure more attractive to the voters. But, making it permanent means you can use the funds for ongoing operating expenditures without having to be concerned that you will have to go back to the voters for another lid lift.
3. After the first year, the jurisdiction’s levy in future years is subject to the 101 percent lid. This is the maximum amount it can increase without returning to the voters for another lid lift.
4. If the lift is for a specific number of years, the base levy for future years after the lid lift ends will be set at what the base would have been, if the lid lift had not taken place. RCW 84.55.050(4).
5. The election can take place on any election date listed in RCW 29.13.010.

Option 2: Multiple year lid lift. RCW 84.55.050, as amended by 2ESSB 5659, Ch. 24, Laws of 2003, 1st Special Session. See subsections (3)(b) and (e), in particular.

1. Purpose. It can be done for any purpose, but the purpose must be stated in the title of the ballot measure and the new funds raised may not supplant current spending for that purpose.
2. Length of time of lid lift. Six years maximum.
3. The levy can be increased for each of those six years by some amount stated in the ballot title. This can be a dollar amount, a percentage increase amount tied to an index such as the CPI, or percentage amounts just arbitrarily set. Of course, if the amount of the increase for a particular year would require a tax rate that is above the maximum tax rate, the assessor will only levy the maximum amount allowed by law.
4. The legislative body may choose to put language in the ballot title, saying that at the end of the period of the lift, the base for future year increases will be the base during the last year of the lid lift. This contrasts with the provision in the RCW 84.55.050(4) that puts the base back to what it would have been without the lift.
5. The election date must be the September primary or the November general election.

So, which is the best option?

As usual, of course, it depends. The requirement in the 2ESSB 5659 legislation that the purpose must be stated makes it less flexible than the “original flavor” version. This may be true more in theory than practice, however, because we know of only one city that has successfully passed a ballot measure where they did not specify the use of the funds. (We don’t mention counties in this example because we do not know of any county that has done a lid lift other than King County’s small recent lid lift for parks. Please let us know if you have done one.)

The requirement that there be no supplanting in expenditures is more restrictive. It certainly is attractive to have the opportunity to do a levy lid lift for a popular program, such as public safety, and then use part of the money that would have been spent on that program for, say, a new computer system. One presumes, however, that citizens believe there will be no supplanting even when the statutes do not prohibit it and that they will require some accounting from government officials.

If you use the CPI as the inflator in a multi-year lid lift, which index should you choose?

There are all sorts of consumer price indices. **It is absolutely crucial that you correctly identify the one you want to use in your ballot measure.** The considerations are the same as choosing a consumer price index for a labor contract. The Bureau of Labor Statistics has a Web site that will help you make that decision. <http://www.bls.gov/cpi/cpi1998d.htm>. Figure out when you will want the information for budgeting purposes on how much your property tax levy can be increased. Then make certain that the CPI index you have chosen will be available by that date.

The U.S. CPI figures are available monthly with a lag of about two and a half weeks. For example, the April statistics are published around May 19 or so. The Seattle-Tacoma-Bremerton CPIs are published bimonthly for even-numbered months. The February numbers are published in mid-March, to give one example. The Portland-Salem indices are only published twice a year. The second half of 2003 is published in mid-February and the first half of 2004 in mid-August.

What election date should you choose?

If you are doing a lid lift under the provisions of 2ESSB 5659, you are limited to either the September primary or the November general election. For lid lifts under the “old” provisions of RCW 82.55.050, you have more choices.

There are a number of considerations here. Your election date will determine (assuming the ballot measure is passed) when you will get your first tax receipts. Taxes levied in November are first due on April 31 of the following year. Therefore, to receive taxes next year from a levy you are discussing during the current year, your election can be no later than November. We know of some councils that first began thinking of a levy lid lift in October 2002 last year, during budget discussions for 2003. By that time it was too late to get any measure on the November ballot. Your county auditor must receive your ordinance or resolution 45 days before the date of the election. **It pays to plan ahead.**

Councils and commissions should ask around to find out what other elections will be coming up during the coming year. You may not want to go head-to-head with a school levy election or a voted bond issue.

What are the rules for what can and cannot be done to support or oppose ballot propositions?

You will probably find the information in following articles helpful.

“Use of Public Facilities to Support or Oppose Ballot Propositions.” Prepared by MRSC Legal Staff.
<http://www.mrsc.org/subjects/finance/695/pubfac-pwm.aspx>.

“What Can and Can’t Local Government Officials and Employees Do to Support or Oppose an Initiative Measure.” [Editor: the information applies to any ballot measure.] Prepared by MRSC Legal Staff.
<http://www.mrsc.org/subjects/finance/695/qanda-pwm.aspx>.

It is very important that you be cautious in what you do. Our legal staff can give you some advice. In years past, the Public Disclosure Commission was willing to review any information pamphlets that municipalities produced. However, the commission is awaiting a decision in a lawsuit before the Washington State Supreme Court and they are currently not providing this service.

Initiative Update

I-776

I-776 was approved by the voters in the November 2002 election. It lowered license fees for light trucks to \$30 and repealed the voter-approved local option \$15 license fee that was collected in King, Pierce, Snohomish, and Douglas counties. It also repealed the voter-approved motor vehicle excise tax that provides part of the funding for Sound Transit's bus service, commuter rail, and light rail. In addition, it contained language in section 1 saying that "dramatic changes to transportation plans and programs previously presented to the voters must be resubmitted." There was similar language in section 7 that explicitly refers to light rail (Sound Transit).

In December, an injunction was granted that allowed the state to continue to collect the \$15 fee until a hearing could be held on the constitutionality of the initiative. As a condition of issuing the injunction, Judge Mary Yu said that the counties must bear the cost of returning the money to vehicle owners if the initiative is found to be constitutional. Since part of the money being collected and held by the state would be going to cities if it were distributed, one would guess that the counties would ask the cities to share the costs if the money has to be returned. Note, that the Snohomish County Council repealed their ordinance in November, after the election, so the fee is not being collected for the county nor the cities in Snohomish County.

On February 10, 2003, Judge Yu found I-776 unconstitutional on a number of grounds. Tying the reduction in light truck fees to \$30 with a requirement for a revote on light rail violated the "single subject" provision of the constitution. In addition, she ruled, the ballot title did not disclose all the subjects in the initiative and the initiative impaired King County's contract with bondholders, who had purchased the bonds on the assumption that the \$15 license fee would be collected.

On June 26, 2003, the Washington State Supreme Court heard oral arguments on an appeal to Judge Yu's decision. We do not know when the supreme court will rule, but caution cities and counties against budgeting the \$15 license fee revenues for 2004.

I-790

I-790, passed in November 2002, created a new board to oversee LEOFF 2 pensions for police and firefighters. It also included language in section 6(5) that said if pension fund investments earned more than the actuarially assumed rate of investment return (currently, eight percent), the excess "shall be used exclusively for additional benefits for members and beneficiaries." In the past, if investments earned a rate of return greater than the actuarially assumed rate of return, the money was put in reserve to supplement earnings in years in which investments earned less than the assumed amount.

The state actuary did a number of estimates, using various assumptions. They all showed that the members, local governments, and the state would have to increase their contributions significantly in order to fund this provision. An early estimate had local government contributions increasing by \$266 million a year and the contribution rate of members increasing to over 25 percent of their salaries.

LEOFF 2 members and local governments supported legislation (SHB 2198) that deleted this section from the initiative and RCW 41.26.725, where it was codified. A two-thirds vote in each house was needed because the initiative has been in effect for less than two years.