

BUDGET SUGGESTIONS

For 2005



Budget Suggestions For 2005

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of Washington**

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Introduction

Here is your copy of *Budget Suggestions for 2005*. As always, we try to provide you with timely information, within the constraints we face in getting information from the state.

In this publication you will find:

- Descriptions and interpretations of 2004 legislation that may affect your budget.
- CPI and state-shared revenue forecasts, including a look ahead to 2006.
- An article on telecommunication taxation by Jim Doherty of MRSC.
- An article on pay advances and employment taxes by Clark Fletcher, FSLG Specialist.
- A discussion of budgeting and beginning and ending cash balances by Toni Nelson of SAO.
- Information on the Washington State Supreme Court decision on ambulance service charges by Hugh Spitzer of Foster Pepper.

Judith Cox, our Public Finance Specialist, 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 Stewart designed and produced the document. Erica Zwick, Connie Elliot, and Carol Tobin proofed the document. We hope this material will assist you as you go through the budget process and into 2005.



Richard Yukubousky
Executive Director

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Budget Calendar for Preparation of 2005 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 2004 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 13
2. Estimates are to be filed with the city clerk.	By fourth Monday in September. ²	September 27
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 4
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 2005

Major Steps in Budget Preparation	State Law Time Limitations	Actual 2004 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.	November 2
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 2 through November 15
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 19
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 6
12. Adoption of budget for 2005.	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. For the 2005-2006 biennium, the last date to pass such an ordinance was June 30, 2004. Cities and town that missed that deadline must wait until the 2007-2008 biennium because the first year of a biennial budget must be an odd-numbered year.

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, 2005) nor later than the end of the first year of the biennium (December 31, 2005). 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.

Budget Calendar for Preparation of 2005 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 2004 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 12
2. Filing of estimates with Auditor or Chief Financial Officer by all officials. RCW 36.40.010	Second Monday in August	August 9
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 7
4. Preliminary budget hearing by board of commissioners. RCW 36.40.070	First Monday in October	October 4
5. Alternative preliminary budget hearing by board of commissioners. RCW 36.40.071	First Monday in December	December 6
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.

2004 Legislation That May Affect Your Budget

Property Tax Levy for Criminal Justice Purposes (HB 2519, Ch. 80, Laws of 2004)

Effective July 1, 2004, a county with a population of 90,000 or less may put a proposition before the voters to levy a property tax of up to \$0.50 per thousand dollars of assessed valuation to be used for criminal justice purposes. The levy may be for up to six years.

There are two different scenarios for voter approval of this levy. If at least 60 percent of the voters vote “yes,” with a voter turnout of more than 40 percent of the number of people voting in the last general election, the measure is passed. However, if the voter turnout is 40 percent or less of the number voting in the last general election, all is not lost. In that case, as long as the number of “yes” votes is equal to at least 60 percent times 40 percent of the number of people voting in the last general election, the measure will pass. If, for example, 1,000 people voted in the last general election, as long as there is a majority “yes” vote of at least 240 ($1,000 \times .4 = 400$; $400 \times .6 = 240$), it will pass even if the number of people voting is less than 400 (40 percent of those voting in the last general election).

This levy is a “regular property tax levy.” As such, it is governed by RCW 84.55.010. After the initial levy is approved by the voters, counties with a population under 10,000 may increase the amount of the levy by a maximum of one percent a year plus an additional amount (“add-ons”) from new construction, increases in state-assessed utility valuations, and annexations. Because of Referendum 47, counties with a population of 10,000 and over are limited each year to a levy increase that is the lesser of one percent or the increase in the July implicit price deflator for personal consumption expenditures as published by the Bureau of Economic Analysis in the September *Survey of Current Business*, plus add-ons, unless the legislative body makes a finding of “substantial need” with a majority vote of the commissioners.

This levy is not subject to the limitation in RCW 84.52.043(2), which provides that the aggregate levies of special districts and a city and county shall not exceed \$5.90 per thousand dollars assessed valuation. It is, however, subject to the constitutional provision that the aggregate of all regular property tax levies (except levies by ports) shall not exceed one percent of assessed value (\$10 per thousand dollars assessed valuation), and it is the first levy to be prorated if the one percent limit is exceeded.

Use of Rural County Sales and Use Tax (SSB 6113, Ch.130, Laws of 2004)

RCW 82.14.370 allows a rural county to levy a sales and use tax of not more 0.08 percent. This tax is not an additional tax. A portion of the 6.5 percent state sales and use tax is paid to the eligible counties. When the law establishing this tax was originally passed in 1997, it was the intent of the sponsors that the proceeds be used in ways to promote economic development. Not all counties have been using the funds in this fashion.

This new law amends the statutes to restrict the use of the funds to financing public facilities that facilitate the creation or retention of businesses and jobs in the county. In addition to consulting with cities and port districts, counties must also consult with the economic development organization in the county before expending the funds.

By no later than October 1 of each year, counties must file a report with the state auditor listing new projects for the prior fiscal year and showing how they reflect the intent of the law. Projects that have been started or to which these sales tax revenues have been pledged before the effective date of this law (June 10, 2004) are not considered to be new projects subject to this law.

Election Costs (SB 6493, Ch. 268, Laws of 2004)

Prior to the passage of this bill, a code city that put a change of form of government proposal before its voters had to hold the election within 180 days after passing a council resolution or finding a petition from the voters sufficient. Sometimes this meant holding a special election, with the city having to bear all the election costs if this measure was the only one on the ballot. Now the city can hold the election at the next general election, sharing the costs with other jurisdictions.

A section was vetoed that would have prohibited the county from prorationing a share of state-wide officer and ballot measure costs to cities and special districts in even-numbered years.

Advertising Requirements for Purchasing and Contracting (HB 2615, Ch. 190, Laws of 2004)

Cities and counties (and other municipalities) have, for a long time, used the Interlocal Cooperation Act to purchase off each other's contracts. The Attorney General wrote a memorandum in June 2003 stating that when purchasing off another entity's contract, the purchaser still had to comply with its statutory bidding requirements. Not all entities were doing that. In particular, they were making purchases without first advertising for bids in their official newspapers.

This bill provides that the requirement of giving notice for bids is satisfied if the public agency or agencies that awarded the bid complied with its own bidding requirements and either: 1) posted the call for bids on a Web site established and maintained by a public agency, purchasing cooperative, or similar service provider for the purpose of posting public notices for bids or 2) provided an access link on the state's Web portal to the notice.

Currently, a group of purchasing managers are working with the State Auditor's Office (SAO) to draft some samples of approaches that have been used by some cities to help document compliance to the Interlocal Cooperation Act requirements. They are confirming that utilization of US Communities, Western States Contract Alliance, and Department of Information Services (DIS) contracts is compliant with the requirements of the new legislation. They have also had some initial discussions with DIS about whether a centralized state Web site is needed to allow smaller jurisdictions to meet the Web-site posting options available in the legislation.

Note that SAO will not be making written findings on purchasing interlocal agreements until the new guidelines are in place.

Counties May Now Levy a Tax on Timber Harvested from Public Lands (ESHB 2693, Ch. 177, Laws of 2004)

In addition to the four percent tax that counties may levy on timber harvested on private lands, counties may now levy a tax on timber harvested from public lands, effective January 1, 2005. This tax will be credited against the state excise tax of five percent. The county tax rate will be phased in over ten years. The rate for 2005 will be 1.2 percent and will increase by 0.3 percent each year until it reaches four percent in 2014.

New Pension Plan for Public Safety Employees (HB 2537, Ch. 242, Laws of 2004)

A new retirement system, the Public Safety Employees Retirement System Plan 2 (PSERS 2) is created for certain employees who do not qualify for LEOFF 2, but who have some law enforcement responsibilities. No employee is covered by PSERS 2 unless the member is specifically included in the definition of a PSERS member. PSERS members include: city corrections officers, jailers, police support officers, custody officers and bailiffs, county corrections officers, probation officers and probation counselors, state correctional officers, correctional sergeants and community corrections officers, liquor enforcement officers, park rangers, commercial vehicle enforcement officers, and gambling special agents.

Qualifying employees will be offered membership in PSERS 2 on July 1, 2006. They will have until September 30, 2006 to choose whether to remain in PERS 2 or 3 or switch to the new plan. New employees hired into qualifying public safety positions on July 1, 2006, or later, will become members of PSERS 2, unless they are already enrolled in PERS 1.

Normal retirement is at age 60, with at least ten years of service, or age 65, with at least five years of service. Early retirement can be taken at age 53, if one has at least 20 years of service. The pension will be reduced by three percent for each year the member retires before age 60.

Because this plan has enhanced benefits, it will cost the employees and cities and counties more than the PERS 2 and 3 plans.

Property Tax Exemption of Certain Property Owned by Indian Tribes (SHB 1322, Ch. 236, Laws of 2004)

Property that is owned by a federally-recognized Indian tribe located in Washington will be exempt from property taxes, if it is used exclusively for essential government services. "Essential government services" is defined in the bill as "services such as tribal administration, public facilities, fire, police, public health, education, sewer, water, environmental and land use, transportation, and utility services."

The Department of Revenue is currently drafting a WAC to assist assessors in implementing this legislation for the 2005 tax rolls.

Tax Incentives for High Technology Businesses (ESHB 2526, Ch. 2, Laws of 2004)

This legislation modifies and extends some tax incentives that were due to expire this year. The high-tech B&O tax credit program is extended until January 1, 2015. A new method of calculating the credit is provided. Persons taking the credit must file an annual report and survey with the Department of Revenue (DOR) each year by March 31 in the year following the year in which the credit was taken. If a participant in the program fails to complete the survey, he may not take the credit. DOR is required to provide the legislature with summary data each year by September 1 and do an evaluation of the program by December 1, 2009 and December 1, 2013.

The sales tax deferral/waiver program is also extended to January 1, 2015. Participants in the programs (either investment projects involving research and development or pilot scale manufacturing operations) must complete an annual survey by March 31 of the year after the year in which the project is certified by the Department of Revenue as operationally complete. Participants must pay 12.5 percent of the sales and use tax due for each year they do not complete the survey. DOR is required to provide the legislature with summary data each year by September 1 and do an evaluation of the program by December 1, 2009 and December 1, 2013.

The application for the deferral/waiver must be made before the initiation of construction. This legislation provides a definition of "initiation of construction" that makes it clear that construction is considered initiated when a building permit is issued. A property owner who leases property to another may qualify for the deferral on qualifying expenditures if he fully passes the benefit on to the lessee and if the lessee agrees in writing to complete the annual survey.

Rural County Tax Incentives Extended (SSB 6240, Ch. 25, Laws of 2004)

The sales and use tax deferral/waiver program is extended until July 1, 2010 for rural counties and counties with a community empowerment zone. A more extensive survey than in the past must be filed with the Department of Revenue by March 31 for eight years, starting in the year after which the project is operationally complete. A property owner who leases property to another may qualify for the deferral on qualifying expenditures if he passes the benefit on to the lessee and if the lessee agrees in writing to complete the annual survey.

Two programs to provide B&O tax credits were reestablished and now expire on January 1, 2011. A B&O tax credit of \$1,000 may be taken for each new qualified employment position after January 1, 2004 for jobs doing programming of computer software in a rural county. This credit may be taken for up to five years.

A second program, beginning April 1, 2004, provides a credit for information technology help desk services. A credit is equal to 100 percent of the amount of tax that is attributable to providing such services. If a credit is taken, a letter must be sent to the Department of Revenue by January 30 each year, providing information on the type of activity the person is engaged in, the number of people employed, etc.

DOR is required to provide the legislature with summary data each year by September 1 and do an evaluation of the program by December 1, 2009.

Prohibition of Internet Taxation Extended (SB 6259, Ch. 154, Laws of 2004)

While the House and Senate in the other Washington try to figure out what they are going to do, our legislature has extended the ban on taxing Internet Service Providers (ISPs) until July 1, 2006. If a city has a B&O tax, it may tax the income of ISPs at the service rate.

Supplemental Operating Budget (ESHB 2459, Ch. 276, Laws of 2004)

The amount of “backfill” that was provided in last year’s budget for cities for 2005 did not change. Last year’s budget did not provide money for 2005 for counties, and a \$4 million appropriation was made, which will go to sixteen counties.

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/Subjects/Finance/cpipage.aspx. 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 12 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 2004 and 2005.

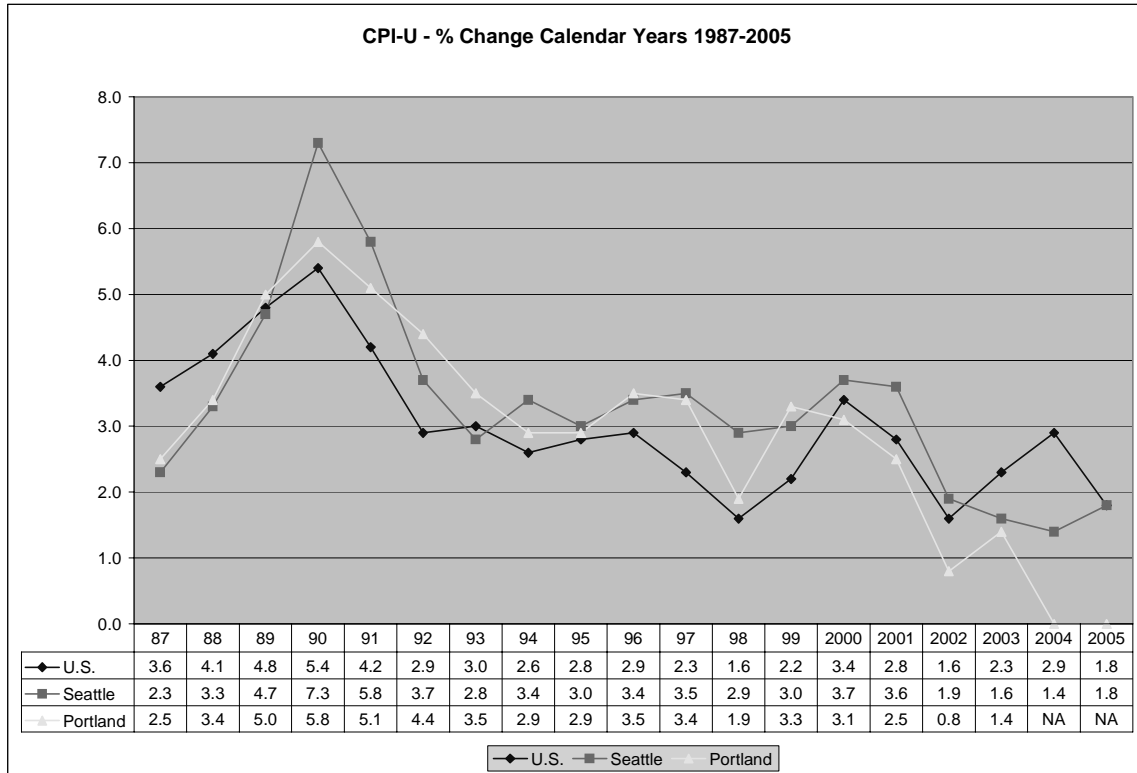
In June, almost all forecasters raised their inflation forecasts for 2004 compared to their earlier estimates. We have forecasts for the national inflation rates from the Philadelphia Federal Reserve Bank, which surveys 32 economists; the Research Seminar in Quantitative Economics at the University of Michigan; The *Wall Street Journal*, which surveys 55 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 uses the Global Insight estimate for its forecast of the national CPI, and we are following their lead, although we have used a newer (July) forecast.

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.

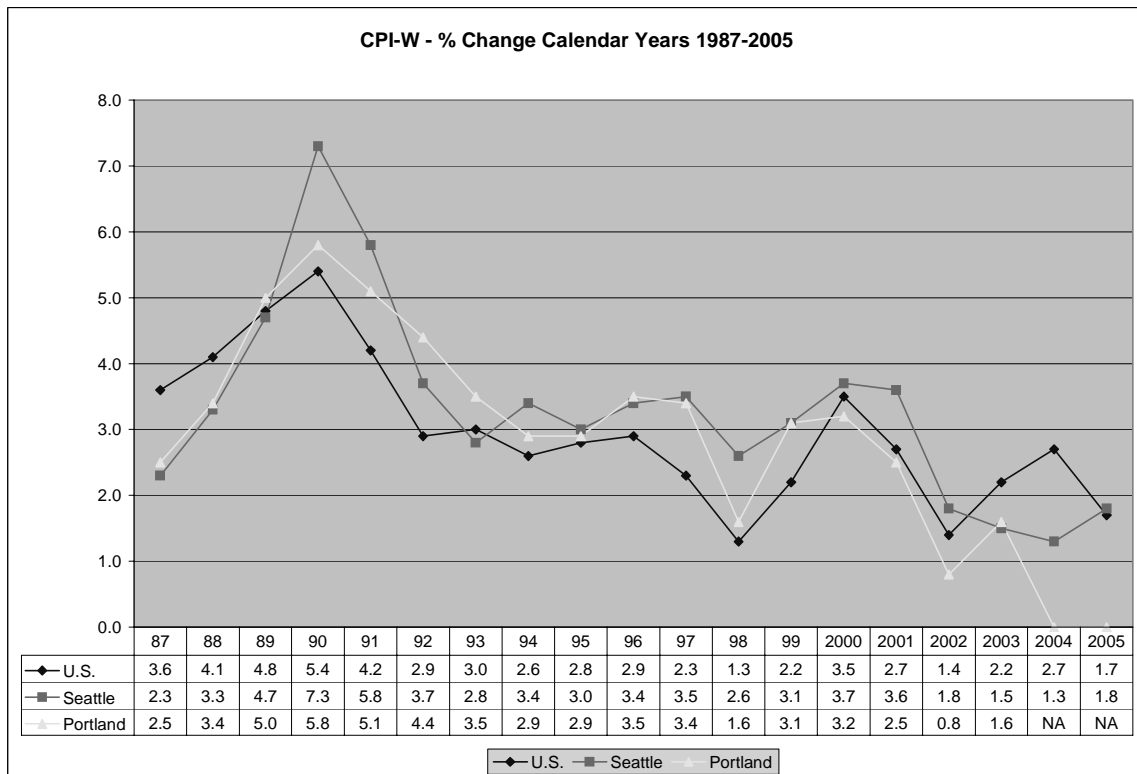
Calendar year growth in gross domestic product (GDP) is expected to increase from 3.1 percent in 2003 to 4.8 percent in 2004 and then slow to 3.6 percent in 2005, according to the Forecast Council. The growth has been mainly driven by consumer spending, which was at a two-year high in June, but we now also are seeing an improving industrial sector. The U.S. economy added 112,000 jobs in June, dropping the unemployment rate to 5.6 percent. This is the tenth straight month there has been an increase on jobs. Washington's employment has increased for seven consecutive months and its unemployment rate of 6.1 percent is the lowest it has been in three years. The June job growth was less than that in April and May, but the state economy is still moving in a positive direction.

Although the May U.S. CPI figures showed a big jump, forecasters do not consider that worrisome at this point. They believe that the increase in fuel and food prices cannot be sustained and inflationary pressures will dissipate as the year proceeds.

Budget Suggestions for 2005



Figures for 2004-2005 are Estimates



Figures for 2004-2005 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)

Budget Suggestions for 2005

Year	Month	All Urban Consumers (CPI-U)			Urban Wage Earners & Clerical Workers (CPI-W)		
		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)

		All Urban Consumers (CPI-U)			Urban Wage Earners & Clerical Workers (CPI-W)		
Year	Month	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 2005

Year	Month	All Urban Consumers (CPI-U)			Urban Wage Earners & Clerical Workers (CPI-W)		
		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)
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)
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)
	First half '03	191.6 (1.8)	186.0 (1.4)		186.2 (1.7)	181.7 (1.7)	
	July			183.9 (2.1)			179.6 (2.0)
	August	194.4 (2.2)		184.6 (2.2)	188.2 (1.8)		180.3 (2.1)
	September			185.2 (2.3)			181.0 (2.3)
	October	193.7 (1.5)		185.0 (2.0)	187.8 (1.2)		180.7 (1.9)
	November			184.5 (1.8)			180.2 (1.6)
	December	191.0 (0.5)		184.3 (1.9)	185.3 (0.4)		179.9 (1.6)
	Second half '03	193.1 (1.5)	186.5 (1.4)		187.1 (1.2)	182.0 (1.5)	
	ANNUAL AVE.	192.3 (1.6)	186.3 (1.4)	184.0 (2.3)	186.7 (1.5)	181.8 (1.6)	179.8 (2.2)
2004	January			185.2 (1.9)			180.9 (1.8)
	February	193.5 (1.2)		186.2 (1.7)	187.8 (0.9)		181.9 (1.5)
	March			187.4 (1.7)			182.9 (1.4)
	April	194.3 (1.0)		188.0 (2.3)	189.1 (1.1)		183.5 (2.1)
	May			189.1 (3.1)			184.7 (3.0)

Implicit Price Deflator for Personal Consumption Expenditures

Monthly Index and Cumulative Percentage Change from July 2003

	Jul 03	Aug	Sep	Oct	Nov	Dec	Jan 04	Feb	Mar	Apr	May
Orig. Index	105.341	105.513	105.703	105.733	105.705	105.924	106.328	106.533	106.832	106.970	
Cum. % Change		0.163	0.344	0.372	0.346	0.553	0.937	1.132	1.415	1.546	
IPD % Proj.		1.959	2.062	1.488	1.037	1.328	1.874	1.940	2.123	2.062	
Prev. 12 Mo. % Change		1.650	1.638	1.666	1.444	1.460	1.670	1.487	1.528	1.894	

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 2003. The third row represents the projections of the annual IPD since July of 2003 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

Every 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. This year they are in the process of completing a “comprehensive” revision going back to 1929, but they still are planning to do the June revision also.

For about four months, the table with the IPD in it was not published in the *Survey of Current Business*. This was a side effect of the comprehensive revision. Some data series simply were not available. For a while there was an interesting possibility that September would come and we would have no July price deflator to use for the permissible property tax increase under Referendum 47.

When they did start publishing the table again, they used three decimal places for each index number rather than the two they had used in the past. (At the same time, the BEA has a note on its Web site saying that they are displaying the numbers to the third decimal point, but this is misleading because it makes one think the numbers are more accurate than they really are!!!)

The next month, they were down to one decimal place, then back to three, then one and now we have three again. We will see what we get in the September *Survey of Current Business*.

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 for taxing jurisdictions with a population of 10,000 or more? 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 106.394 (assuming the BEA gives the number to three decimal places). Sometimes the annual June “tweaking” increases the numbers, sometimes it decreases them. 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 30th. Beginning in 2001, the BEA stopped including the IPD in its news releases. Since the September *Survey of Current Business* will not be published and available on their Web site until after the middle of the month, for us to get the number earlier, we have to reach the “keeper” of this number in Washington, D.C. by phone. One of these years, we may call and discover he is on vacation.

Remember, the number is not **official** until it has actually been published in the September issue of the *Survey of Current Business*.

Revenue Forecasts

City and County State-Shared Revenues

Population Forecast

The official April 1, 2004 **city** population, to be used for distributions in 2005, is 3,772,574. This is only one percent more than the population for April 1, 2003 that was released last year. This low number is not surprising. We had no incorporations during the last year and annexations are just starting to occur again now that the Washington State Supreme Court reversed itself on its ruling in *Grant County Fire Protection District No. 5 v. City of Moses Lake*, finding the petition method of annexation constitutional. 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. The boundary review boards for the largest counties do not see any big annexations of the horizon for next year. The official April 1, 2004 **county** population is 2,395,226. This is an increase of 1.4 percent from 2003. 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.

Higher gasoline prices reduced gasoline purchases and tax collections but a recovering state economy has increased consumption of diesel fuel. Diesel fuel comprises about 19 percent of total state motor fuel consumption. Forecasted revenue distributions to cities and counties for calendar year 2004 are up compared to last year's June forecast because of higher diesel consumption. Higher forecasted gasoline prices reduce forecasted revenues to cities and counties in calendar year 2005.

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 as they have dramatically in the past few months, 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. The estimates for the coming year, based on these factors, is done by the County Road Administration Board (CRAB) in Table 2. City forecasts are in Tables 3 and 4.

Liquor Revenues

The liquor excise tax grew at about our forecast rate, 3.5 percent, in 2003. This looked like a growth rate that would be sustainable. What appears not sustainable is the growth rate of over 11 percent during the first two quarters of 2004. Having no access to the underlying data, we have no idea whether the increase is mainly due to increased average prices per bottle or increases in volume sold or, probably, some of both. So, we are taking a conservative approach and using two percent as the growth rate for the rest of the year, which produces a 7.9 percent growth rate for the year as a whole. If you want to adjust the forecast for a different growth rate, every extra percentage point growth for the rest of the year adds a little under two cents to the city per capita amount and three-quarters of a cent to the county number. We have assumed a growth rate of 3.5 percent for 2005.

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 liquor board profits estimates come from Rob Kirkwood of the Liquor Control Board.

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 last year of SSB 5780, a total of 70 percent of the revenue distributed under RCW 82.14.330 is now 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) was amended to delete the language that allocated certain percentages to innovative law enforcement programs, domestic violence 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, are 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 3 and 4, 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.

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.

2005 MVFT Allocation Factors Estimated 2005 Revenues Motor Vehicle Fuel Tax for Counties		
June 2004 Revenue Forecast: \$137,332,000 County Roadlog Certified January 1, 2004		
County	2005 Allocation Percent	Estimated Revenue
Adams	2.7126	\$3,725,300
Asotin	1.0271	1,410,500
Benton	2.1988	3,019,700
Chelan	1.5812	2,171,500
Clallam	1.3382	1,837,800
Clark	4.2659	5,858,400
Columbia	0.9698	1,331,800
Cowlitz	1.5643	2,148,300
Douglas	2.3691	3,253,500
Ferry	1.1721	1,609,700
Franklin	1.8554	2,548,100
Garfield	0.8632	1,185,400
Grant	4.1570	5,708,900
Grays Harbor	1.5689	2,154,600
Island	1.4652	2,012,200
Jefferson	0.9476	1,301,400
King	10.0912	13,858,400
Kitsap	3.6610	5,027,700
Kittitas	1.3344	1,832,600
Klickitat	1.8085	2,483,600
Lewis	2.3145	3,178,500
Lincoln	2.8398	3,900,000
Mason	1.5296	2,100,600
Okanogan	2.2619	3,106,300
Pacific	0.9137	1,254,800
Pend Oreille	1.0678	1,466,400

County	2005 Allocation Percent	Estimated Revenue
Pierce	7.3677	10,118,200
San Juan	0.6598	906,100
Skagit	2.0528	2,819,200
Skamania	0.5747	789,200
Snohomish	6.7330	9,246,600
Spokane	7.1874	9,870,600
Stevens	2.4830	3,410,000
Thurston	3.3115	4,547,700
Wahkiakum	0.5610	770,500
Walla Walla	1.9512	2,679,600
Whatcom	2.5815	3,545,200
Whitman	2.7897	3,831,200
Yakima	3.8679	5,311,900
Total	100.00	\$137,332,000

Table 2

Summary of Local Share of State-Shared Revenues Total Dollar Amounts – 2002 to 2005 <i>(All Cities and Towns)</i>				
	2002	2003	2004 Revised	2005 Estimate
Gas Tax (unrestricted)	\$51,597,719	\$52,392,592	\$52,948,000	\$54,067,000
Gas Tax (restricted)	24,125,379	24,497,035	24,575,000	25,280,000
Profits of Liquor Board	19,590,672	23,110,626	25,739,000	27,546,000
Liquor Tax	12,605,447	13,181,154	14,223,000	14,721,000
Criminal Justice - former CTED programs	NA	NA	2,673,000	2,747,000
Criminal Justice – Population-based	747,717	776,381	792,000	814,000
Total	\$108,666,934	\$113,907,788	\$120,950,000	125,175,000

Table 3

Per Capita Amounts – 1998 to 2005 <i>(All Cities and Towns)</i>								
	1998	1999	2000	2001	2002	2003	2004 Rev.	2005 Est.
Gas Tax (unrestricted)	\$15.41	\$15.30	\$15.12	\$14.66	\$14.38	\$14.19	\$14.17	\$14.33
Gas Tax (restricted)	7.20	7.15	7.07	6.85	6.72	6.64	6.58	6.70
Profits of Liquor Board	7.18	5.34	6.06	5.36	5.46	6.26	6.89	7.30
Liquor Tax	3.01	3.14	3.27	3.35	3.51	3.57	3.80	3.90
Criminal Justice - former CTED programs	NA	NA	NA	NA	NA	NA	0.72	0.73
Criminal Justice – Population-based	0.38	0.46	0.27	0.21	0.21	0.21	0.21	0.22
Total	\$46.09	\$45.39	\$34.47	\$30.43	\$30.28	\$30.87	\$32.37	\$33.18

Table 4

Summary of Local Share of State-Shared Revenues Total Dollar Amounts – 2002 to 2005 <i>(All Counties)</i>				
	2002	2003	2004 Revised	2005 Estimate
Profits of Liquor Board	\$5,404,500	\$6,256,783	\$6,912,000	\$7,363,000
Liquor Excise Tax	2,774,708	2,913,035	3,176,000	3,292,000
Total	\$8,179,208	\$9,169,818	\$10,088,000	\$10,655,000

Table 5

Per Capita Amounts – 1999 to 2005 <i>(All Counties)</i>							
	1999	2000	2001	2002	2003	2004 Rev.	2005 Est.
Profits of Liquor Board	\$1.83	\$2.16	\$2.17	\$2.23	\$2.64	\$2.93	\$3.07
Liquor Excise Tax	0.94	1.00	1.10	1.14	1.23	1.34	1.37
Total	\$2.77	\$3.16	\$3.27	\$3.37	\$3.87	\$4.27	\$4.45

Table 6

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 2004, 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 \$669 compared to the forecast of \$491.

For 2005, 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 eight percent. 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 \$655.

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 2004</i>			
City/District	Ratio Value	Number of Paid Firefighters as of January 1, 2004	Amount ¹
Aberdeen	\$669.04	35	\$ 23,416.56
Anacortes		19	12,711.85
Auburn		79	52,854.53
Bellevue		190	127,118.48
Bellingham		139	92,997.20
Bothell		52	34,790.32
Bremerton		52	34,790.32
Camas		36	24,085.61
Centralia		21	14,049.94
Chehalis		13	8,697.58
Edmonds		50	33,452.23
Ellensburg		21	14,049.94
Everett		182	121,766.12
Hoquiam		22	14,718.98
Kelso		12	8,028.54
Kennewick		76	50,847.39
Kent		148	99,018.60
Kirkland		70	46,833.12
Longview		42	28,099.87
Lynnwood		52	34,790.32
Mercer Island		29	19,402.29
Moses Lake		24	16,057.07
Mountlake Terrace		25	16,726.12
Mount Vernon		33	22,078.47
Olympia		79	52,854.53
Pasco		47	31,445.10
Port Angeles		22	14,718.98
Port Townsend		9	6,021.40

Distribution of Fire Insurance Premium Tax – RCW 41.16.050 <i>May 2004</i>			
City/District	Ratio Value	Number of Paid Firefighters as of January 1, 2004	Amount¹
Pullman		21	14,049.94
Puyallup		55	36,797.45
Raymond		13	8,697.58
Redmond		103	68,911.60
Renton		105	70,249.69
Richland		54	36,128.41
Seattle		1,024	685,101.69
Shelton		7	4,683.31
Spokane		316	211,418.10
Sumner		17	11,373.76
Sunnyside		14	9,366.62
Tacoma		398	266,279.76
Toppenish		6	4,014.27
Tukwila		61	40,811.72
Vancouver		181	121,097.08
Walla Walla		46	30,776.05
Wenatchee		34	22,747.52
Yakima		70	46,833.12
King County #2		35	23,416.56
King County #10		136	90,990.07
Spokane County #1		140	93,666.25
Totals		4,415	\$2,953,832.01
<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 2006?

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 2006. You probably will not have to share your state-shared revenues with many more people. However, since readers have gotten used to seeing estimates for two years out, here they are.

City Per Capita State-Shared Revenue Estimates – 2006	
Gas tax (restricted)	\$6.89
Gas tax (unrestricted)	14.75
Liquor board profits	7.54
Liquor excise tax	3.98
Criminal Justice (former CTED programs)	0.74
Criminal Justice (population)	0.22
Total	\$34.11

County Per Capita State-Shared Revenue Estimates – 2006	
Liquor board profits	\$3.20
Liquor excise tax	1.42
Total	\$4.62

Telecommunications Taxation

by Jim Doherty, MRSC Legal Consultant

Telephone Services

All cities and towns have authority to impose a utility tax on telephone businesses. The maximum rate is set at six percent, unless an increase over six percent is approved by the voters. RCW 35.21.870. The telephone business tax applies to wireline telephone service and wireless telephone service. [RCW 35.21.860 specifically prohibits the imposition of any revenue-generating franchise fees on telephone businesses.]

As advanced wireless telephone services (2.5G & 3G) are deployed, data services will become a larger portion of the overall bills paid by subscribers. Text messaging, Internet access, the sending of photos or video clips – all of these transmissions are data services, not voice communications, and telephone providers are not paying taxes on that portion of their revenue.

Because of the prohibition on Internet access taxation, there is no telephone tax on any revenue earned by companies that provide Internet access via a dial-up connection. The telephone tax does apply to the charges for the telephone line used for the service.

Several years ago there were problems with establishing the location of wireless services for taxation purposes. To resolve the issue, in 2002 the legislature enacted RCW 82.08.066:

For the purposes of this chapter, mobile telecommunications services are deemed to have occurred at the customer's place of primary use, regardless of where the mobile telecommunications services originate, terminate, or pass through, consistent with the mobile telecommunications sourcing act, P.L. 106-252, 4 U.S.C. Secs. 116 through 126. The definitions in RCW 82.04.065 apply to this section.

When dealing with telecommunications taxation issues you must be aware of the definitions found in RCW 82.04.065. The following terms are defined in that statute: “competitive telephone service”, “network telephone service”, “telephone service”, “telephone business”, “mobile telecommunications service”, “place of primary use”, etc. Refer to the statute when you draft any ordinance dealing with telephone taxation. MRSC has sample ordinances available for you to review.

CATV - Video Services

Cities and towns can impose a utility tax on cable television services. Under federal law, the utility tax on cable television should not be “unduly discriminatory against cable operators and subscribers”, so the rate should be in line with the utility tax rate imposed on other utilities in the jurisdiction. Also, federal law permits cities, towns and counties to impose a franchise fee of up to five percent on the gross revenue on traditional video services.

CATV - Cable Modem Services (Internet Access)

There has been considerable controversy and federal court litigation regarding how to classify cable modem services offered by cable providers. Cable modem service provides broadband (high speed) access to the Internet using the same coaxial cable that provides video services.

The federal courts have designated cable modem service as part “information service” and part telecommunications, but not a cable service, so the franchise fee on video services cannot be applied to cable modem revenue. There will be ongoing litigation and further regulatory proceedings concerning the classification of cable modem service. Until there is a definitive classification of the service, taxation will be uncertain. Additionally, because of the federal prohibition on Internet access taxes, cities and towns cannot impose their utility tax on revenue earned by a cable operator providing Internet access.

DSL

Digital Subscriber Line (DSL) technology is a method of providing broadband Internet access using telephone lines. After cable modem services, DSL is the most common means used for broadband Internet access in the U.S.

At present, the U.S. Senate and House are still working out differences in their versions of the “Internet Tax Nondiscrimination Act”. Basically, the legislation will extend the moratorium on Internet access taxes for four years. Any existing taxes on DSL broadband connections will be phased out in two years. As with dial-up connections to the Internet, local telephone taxes can apply to the charges for installation of a phone line for DSL services, and to any extra monthly charges for an extra line.

CATV – Phone Service

Some cable television operators may soon be providing phone service through the same coaxial cable that provides video service. This is called Voice Over Internet Protocol service, discussed below.

Voice Over Internet Protocol (VOIP) is an advanced telecommunications service that is projected to grow exponentially over the next few years. Because of technological advances, it is now possible to transmit voice communications via the Internet using packet data transmission techniques that are similar to the way other non-voice data is transmitted. A regular phone is connected to a computer and calls are transmitted using the computer, via the Internet. If a cable company is offering VOIP services, the calls are routed to the Internet by the coaxial cable; VOIP services can also be carried to the Internet on digital subscriber lines (DSL). However, we are merely at the beginning of this radical shift in voice communications, and there is much uncertainty regarding how the services will be classified, regulated, or taxed. If a large percentage of residential and business telephone customers switch to VOIP, and if the services are not taxable, then local governments could lose substantial revenues.

If a VOIP communication uses the switched network system at one end of the call, then it can be argued that the communication should be taxed (see the definitions in RCW 82.04.065). Companies offering VOIP services want to avoid federal, state and local government regulation and taxation. This is all quite new and in flux. Some of the incumbent telephone companies may also start providing VOIP services.

The industry argument against regulation and taxation of VOIP is that this new type of communication is a data service, not a traditional voice service, so the regulations on traditional voice communications should

not apply. The Federal Communications Commission is now holding hearings and has not yet formally taken a position regarding how VOIP services will be classified and regulated.

Wi-Fi & Wi-Max

Wi-Fi is a wireless broadband data service that has a relatively short range. Sometimes you might see the technology referred to as 802.11 (that is the technical designation for this standard, adopted through an international organization). It uses unregulated spectrum, and it is the most common means used by business travelers with laptop computers to access the internet. The service has become common in some chain coffee shops, airports, hotels and in some downtown commercial areas.

Wi-Max is a newer standard for wireless broadband access and may start to be commercially deployed in 2005. This is sometimes referred to by the international standard designation 802.16(d). The advantage of Wi-Max is its long range, measured in miles rather than yards. Wi-Max may become important as way to provide broadband internet access in rural areas where DSL and cable modem services are not available.

Wi-Fi and Wi-Max services are not taxable, due to federal legislation prohibiting taxation of internet access providers.

Pay Advances and Employment Taxes

by Clark Fletcher, FSLG Specialist (Pacific)

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State and local governments use various payroll methods and periods to make wage payments to employees. These methods and periods may be set by statute or contract, or by any other means available to the employer. One common practice that may cause confusion is offering employees draws or advances against their normal pay. Governmental employers may have a policy that limits the amount of the draws, sets the cut-off date for requesting a draw, or establishes some form of standard practice for processing and issuing an employee advance prior to the end of the payroll period. In each case, it is important to be aware of how these practices may affect your employment tax responsibilities.

Are draws or advances taxable wages to the employee?

The general rule for constructive receipt of income under Internal Revenue Code (IRC) section 451 states that any item of income shall be included in the gross income for the taxable year received by the taxpayer. Regulation 1.451-2 establishes that the taxpayer need not have actual possession of income if the income is credited to his account, set apart, or otherwise made available so that he or she may draw upon it at any time without substantial restrictions or limitations, or that he or she could have drawn upon it during the taxable year if notice of intention to withdraw had been given. This is the constructive receipt principle. The employment tax regulations (under sections 3121, 3401, and 3402) define wages as all remuneration paid for employment unless specifically excluded. These regulations further stipulate that the name by which remuneration for employment is designated is immaterial. The regulations state that wages are paid and received at the time of payment to the employee (actual receipt) or when credited to the account of or set apart for an employee (without substantial restrictions or limitations). It is clear from the language in Regulation 1.451-2 and in the employment tax regulations that the definition of wage income is intended to mirror the definition of constructive receipt of income. Therefore, if an employee has receipt of a draw, the draw must be recognized as wage income. The following rulings illustrate this principle.

How has the IRS ruled on advance payments previously?

Revenue Ruling 68-239 discusses advance payments that are paid to salesmen against unearned salary, commissions, or other remuneration for which they are to perform services and concludes that advances are wages at the time of payment. However, Revenue Ruling 68-337 makes the distinction that when advances are paid to employees and acknowledged by a note or letter of indebtedness, the advances are treated as loans. This would rarely be the case for government employers, however, as most governmental employers are prohibited from lending money to their employees.

Is an employer required to withhold from draws or advances?

An employer is required to collect tax by deducting and withholding the taxes from the employee's wages when actually or constructively paid. The employment tax regulations define constructively-paid wages in terms similar to Regulation 1.451-2. Unless a payment qualifies as a loan, as described above, or is exempt from wages by some other statute, withholding is required. The definition of wages as income and the

requirement to withhold from wages eliminate any doubt that the principle of constructive receipt of income applies equally to employment taxes and income taxes.

Does the payment of advances change the payroll period?

An employer's payroll period means the period of service for which a payment of wages is *ordinarily* made to the employee. The income tax withholding regulations also state that it is immaterial whether wages are always paid at regular intervals. The regulation cites the example of an employer who establishes a calendar week payroll period and makes a mid-week payment (for services already rendered) to an employee. The calendar week payroll period is not affected by this mid-week wage payment. Therefore, the actual pay date has no bearing on the established payroll period.

Revenue Ruling 65-231 addresses the determination of the proper payroll period to be used for withholding tax purposes when making a lump-sum payment of accrued wages. It states that since a school *ordinarily* pays wages to its' teachers semimonthly, the withholding should be based on a semimonthly payroll period. An employee can have only one payroll period with respect to wages by any one employer. Therefore, if Municipality A creates, in the normal course of operations, a calendar month payroll period, the period for determining the withholding is based upon the monthly payroll period. It may seem, then, that if a governmental employer establishes a monthly payroll period and makes advances to its employees during the payroll period, then the withholding tax obligation does not arise until the payroll period closes. This conclusion is incorrect, however, because setting a payroll period determines the *basis* for determining the withholding of employment taxes from an employee; it does not supersede the principle of constructive receipt, and does not establish when payroll funds are paid or when the withholding taxes are due.

Does allowing employee advances defer the withholding of employment taxes or other deduction amounts until the "regular" payroll period ends?

If advance payments to employees are considered wages for employment tax purposes, then the employers would be obligated to withhold employment taxes from these payments and to deposit the withheld taxes at the prescribed time for that pay date. Additionally, a new payroll period may be created, which would establish a different basis for income tax withholding.

Revenue Ruling 66-376 discusses the mode or time of collection of withholding taxes when advance wage payments have been made. In the case reviewed in this ruling, an employer ostensibly establishes a four-week payroll period but makes advance wage payments, in approximately one-half of the net monthly wages, to its employees at the end of the second week of each payroll period.

The ruling determined that a biweekly payroll period had been established when the advance wage payments were paid and, therefore, the employer is obligated to withhold and deposit the employment taxes. The regularity with which the advances were paid established a common payroll and business practice, so that even if there is no written policy allowing for employee advances, *the facts and circumstances dictate the true payroll period*. The amount of the advances is immaterial because the issue in the Regulations and Revenue Rulings is when wages are actually paid, in keeping with the principle of constructive receipt of income.

How are advances for travel or other employee expenses treated?

If payments are made in advance for anticipated expenses, they are not subject to withholding if they are made under an accountable plan. For more information on the requirements of an accountable plan, see Publication 15 (Circular E), *Employer's Tax Guide*. Advances for expenses not made under an accountable plan are treated as wages and subject to withholding as described above.

What are the consequences of a new payroll period being established?

If Municipality A establishes a policy that allows advance wage payments to be paid to its employees on a regular basis and, in fact, does make advance wage payments, then a "new" payroll period is created for those employees and the obligation to collect and deposit the employment taxes is imposed upon the employer. The basis for withholding of income taxes on the employees who receive advance wage payments would be determined by the payroll period in which the advances (or wages) were paid.

If you have questions about when employment taxes are due, contact the FSLG Specialist in your area. A list of Specialists appears at the back of this newsletter.

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Budgeting With and Without Beginning/Ending Cash Balances

by Toni Nelson, Small Cities Specialist, State Auditor's Office

Most small cities and towns in Washington State operate under Category 2 guidelines prescribed by the Washington State Auditor's Office for cash-basis accounting and reporting. This form of accounting uses single-entry, cash basis which means that revenues are recorded only when received and expenses are recorded when paid. Capital assets and long-term debt are not recorded.

Although it simplifies reporting, cash-basis accounting presents a unique set of challenges, especially when it comes to developing budgets. Because assets and liabilities are not recorded, Category 2 cities and towns focus on revenues and expenditures. Budgets do not reflect depreciation of equipment or the long-term debt service requirements of the city or town.

This raises the issue of how these entities know how much they must retain in cash reserves to replace assets and/or pay off long-term debt. We have a few suggestions about how cities and towns can accurately project sufficient ending cash reserves in order to minimize cash flow issues and to plan for future capital needs.

Each year during the budget process, cities try to project what their net ending cash and investments balance will be so they can use all or part of it in the next year. While the calculation of this ending balance seems simple enough, the variables are numerous, especially when trying to project beginning/ending cash for the general (current expense) fund. Multiple departments are appropriated a specific dollar amount for the year from the general fund. Budget-writers should assume these appropriations will be completely spent by the end of the year. (This assumption is based on the City appropriating all revenues, including beginning net cash). With this analysis in mind, let's examine three possible scenarios involving revenues:

- They fail to meet budget projections, resulting in negative net ending cash
- Budget projections for revenues were met, resulting in ending net cash of \$0.
- Actual revenues exceed revenue projections, leaving the city with a beginning net cash balance figure with which to budget.

Without beginning cash, the city faces cash flow challenges and the inability to meet financial obligations. Smaller cities depend upon property tax revenues for cash flow needs within the general and street funds. This revenue source is cyclic in nature with peaks in the spring and fall. The result is that the city **must have** ending net cash at the end of each year to avoid cash flow problems for the beginning of the next year and needs some level of long-term planning to meet future capital needs. Allocating to ending cash (BARS code 508.00), will provide a cash-basis city with a balanced budget on paper and provide the city with some level of cash flow for the following year.

The city does have an obligation to the community to ensure its long-term fiscal integrity. Fiscal integrity starts with the budget. Developing budgets that include appropriations to "ending cash" is a step in the right direction. The ending net cash and investments balance should be sufficient to minimize cash flow effects and to plan for the long-term effects of depreciation of capital assets, even though the city is a cash-basis entity.

The next step in ensuring the fiscal integrity is to develop “financial policies” that would establish what the ending cash balance should be on an annualized basis. This is based on the size of the city. The Government Finance Officers Association has developed a “recommended practice” as to fund balance levels. You can find this recommended practice at www.gfoa.org. Additionally, AWC provides annual budget workshop sessions to address both immediate budget issues and long-term planning. This can be accessed at www.awcnet.org.

City Ambulance Service Charges Invalidated

by Hugh D. Spitzer, Foster Pepper & Shefelman, PLLC

Editor's Note: This article is excerpted from an article in Municipal and Public Finance News, Summer 2004, and reprinted with permission.

Arborwood v. City of Kennewick concerned funding for a city ambulance system established under a statute that was not a model of clarity. That statute provides three ways for cities to fund ambulance services - two separate excise taxes and an ambulance service charge. Kennewick had initially imposed an ambulance charge, but later amended the ordinance to turn it into an excise tax. The State Supreme Court invalidated Kennewick's charge – or tax (the Court had trouble determining which it was).

The opinion did not provide a coherent interpretation of a statute that was not particularly coherent in the first place, but a few points can be gleaned from the decision. First, a true “excise tax,” according to the Court, must be “based upon on the voluntary action of the person taxed in performing the act, enjoying the privilege, or engaging in the occupation which is subject to the excise tax.” If the tax cannot be avoided, it is not a true excise tax. In this case, the Court could not discern any way that a business or individual could escape the tax by declining to engage in an identifiable activity. Thus, the Court concluded that Kennewick was essentially trying to impose an extra (and unauthorized) utility tax on water customers for ambulance services. Second, the Court suggested that if Kennewick's charge was actually an ambulance “utility” charge, then it was not proper because it was structured with flat rates for all residents regardless of benefit received or usage of the service. The court's discussion in this context suggests that ambulance charges could be based on individualized factors such as distance from the ambulance station, distance from a hospital, response time, frequency of ambulance calls for the type of customer served (e.g., single-family dwellings versus apartments), and effect of the service on insurance rates.

The lesson from this somewhat murky decision is, however, that the ambulance service statute should be amended to clarify the activity subject to an “excise tax.” In the meantime, it appears cities may need to restrict themselves to imposing ambulance charges based on factors such as those described above.

Miscellany

Providing Information to Donors Regarding Your Tax-Exempt Status

MRSC is frequently asked by cities and counties how they can “prove” to a donor that the donor can deduct a gift on his or her income tax. What we have done in the past is send out a copy of Internal Revenue Code section 170(c)(1), that provides for the tax deductibility of “charitable contributions and defines “charitable contribution,” in part, as

a contribution or gift to or for the use of a State, a possession of the United States, or any political subdivision of any of the foregoing ...but only if the contribution or gift is made for exclusively public purposes.

This appears to satisfy potential donors. However, we have just heard that the Internal Revenue Service will issue a “government affirmation letter” upon request. A portion of this letter discusses the applicable code sections pertaining to deductible contributions and affirms that your city or county is a government entity.

To get such a letter, call the IRS Tax-Exempt/Government Entity Cincinnati Call Site at 1-877-829-5500.

You May Be Able to Close Your Arterial Street Fund

If your city has a population of less than 15,000, you may use **all** the gas tax you receive for maintenance if you wish. You do not have to dedicate a portion to capital projects and put it in a separate arterial street fund. RCW 46.68.110(4). (Of course, the gas tax must be spent on streets.) The portion we are talking about is shown as “Gas Tax (restricted)” in the tables, but old-timers probably refer to it as the “4.61 percent gas tax.”

Therefore, you really need to have only one fund to receive your gas tax – a city street fund. You can close your arterial street fund by ordinance and transfer all the assets and liabilities to your city street fund. It is probably tidiest to make this ordinance effective at year-end so you can close your books before you make any transfers. But, you assume the fund is closed when you do your budget.

One exception to the above. Cities and counties are required to expend at least 0.42 percent of their total gas tax receipts each year on paths and trails unless the 0.42 percent amount is \$500 or less for cities and \$3,000 or less for counties. RCW 47.30.050(1). A city or county may deposit the paths and trails money in a reserve fund rather than spending it each year, but it must spend the funds within ten years.

Property Tax Rate Limit for Some Cities Is \$3.825

Editor’s Note: This question and answer is reprinted, with permission, from the Department of Revenue publication, Property Tax Review, October 2002. The answer was written by Fletcher Barkdull, Levy Auditor.

Question: If a city has a firemen’s pension fund, what is the maximum statutory dollar rate even if the city chooses not to levy taxes for the fund (under RCW 41.16.060)?

Answer: The maximum statutory rate for a city (which is not annexed to a fire and/or library district) where a firemen's pension fund exists within its treasury is \$3.60. The first paragraph of the statute requires that cities or towns with a firemen's pension fund levy a rate equal to \$0.225 for the fund. This levy is within the original \$3.375 limit of the city. The second paragraph requires another \$0.225 levy in addition to the regular levy of \$3.375, which brings the maximum statutory levy rate for the city up to \$3.60. If a city has a firemen's pension fund and is annexed to a fire and/or library district, the maximum statutory levy rate is \$3.825 less the levy rate(s) of the fire and/or library district(s).

A city is required to earmark a total of \$0.45 for the firemen's pension fund unless a report by a qualified actuary states that all or part of this levy rate is not necessary to maintain the fund. If such a report is made, the city may still levy the \$0.45, or any portion thereof, and use the funds for other municipal purposes.

This additional levy for the firemen's pension fund is still subject to the levy limit set forth in chapter 84.55 RCW. If the total levy for the city and the fund is reduced by the levy limit, the city's levy and the levy for the firemen's pension fund shall be reduced in the same proportion. **The statute also says that if the additional levy (\$0.225) causes the combined levies to exceed statutory or constitutional limits, the additional tax must not be levied.**

Levy Lid Lift Question

As you can imagine, before Tim Eyman announced that he did not have enough signatures to put Initiative 864 on the ballot in November, our office received a lot of calls about levy lid lifts. A number of them came after the June Puget Sound Finance Officers' Association meeting where a speaker stated that one city was going to do a levy lid lift and *lower* its rate. "How," we were asked, "can you do a lid lift if you don't raise the rate?"

Well, in many cases you cannot. But, if your assessed valuation has risen enough during the current year, you may be able to do a lid lift by keeping the tax rate the same or even lowering it. What is important to remember is that when you do a levy lid lift, you are asking the voters to increase next year's *levy* by an amount greater than the one percent limit in RCW 84.55.010. That does not necessarily mean raising the *rate*.

Let's assume that your assessed valuation for this year's taxes was \$50,000,000 and your tax rate is \$2 per thousand dollars assessed valuation. Your levy this year is \$50,000,000/1,000 times \$2, which is \$100,000. Next year, your levy can be \$100,000 times 1.01, which is \$101,000 (plus taxes on new construction and changes in the value of state-assessed utility property, which we will ignore in the rest of this example).

Your council or commission, however, has determined that to prevent reductions in service, it needs to get \$105,000 in property tax revenue. That is a five percent increase and requires a vote of the people for a levy lid lift. If your assessed valuation has not changed, you will need to raise your tax rate by five percent to \$2.10 to get that amount. (\$50,000,000/1,000 times \$2.10 equals \$105,000.)

If your assessed valuation for next year's taxes has increased by exactly five percent to \$52,500,000, you can levy \$105,000 by putting your current year's tax rate (\$2.00) in the levy lid lift ballot measure title. (\$52,500,000/1,000 times \$2.00 equals \$105,000.) If your assessed valuation has increased by more than five percent – say, it was 10 percent to \$55,000,000 – you can levy \$105,000 with a *lower* tax rate (\$1.90909) than you have this year. (\$55,000,000/1,000 times \$1.90909 equals \$105,000.)

So, a levy lid lift is a vote to raise the dollar receipts from the property tax levy by more than one percent. (Or for jurisdictions with a population of 10,000 or more, it is the lesser of one percent or the percentage increase in the July implicit price deflator for personal consumption expenditures as published in *Survey of Current Business* by the Bureau of Economic Analysis). The tax rate in the ballot measure that produces the desired increase can be higher, the same, or lower than the current rate.

Warning! Significant Increases in Pension Contribution Rates are Coming

Editor's Note: As we are about to go to press (literally), we are reading the July 15, 2004 AWC Legislative Bulletin. In it is a section reminding those of us who forgot (we did), that significant increases in pension contribution rates are forecast for the coming years. We decided to reproduce this material in Budget Suggestions to give this information as wide a circulation as possible.

Contribution Rate Projections

As we have previously told you, LEOFF and PERS employer and employee contributions rates are expected to rise over the next number of years. The following chart shows the State Actuary's earlier projections for employer contribution rates. Although these numbers were estimates only, and will be revised this fall, they serve as a reminder to employers that the days of low pension contribution rates are coming to an end.

Projected Employer Contribution Rates			
Biennium	PERS	LEOFF 1	LEOFF 2
2003-2005	1.18%	0.00%	3.03%
2005-2007	5.04%	0.00%	4.80%
2007-2009	7.02%	6.00%	5.60%

Note: these rates **do not** include the DRS expense rate, currently at .22%

In October's *Legislative Bulletin*, we ["we" is AWC] will share with you the adopted contribution rates that will be effective July 1, 2005, as well as the State Actuary's updated contribution rate projections for future years, if available.