

# BUDGET SUGGESTIONS

For 2007



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# Budget Suggestions For 2007

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of Washington**

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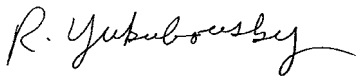
# Introduction

Here is your copy of *Budget Suggestions for 2007*. 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 2006 legislation that may affect your budget.
- CPI and state-shared revenue forecasts, including a look ahead to 2008.
- An article on the budget process from Lynn Nordby, a former city manager/administrator.
- An update on pension rates.
- An article on centralized versus decentralized purchasing by Mike Bailey.
- Analyses of Initiatives 917 and 933 from the Association of Washington Cities.
- Questions and answers on the implications of the Washington State Supreme Court ruling on Initiative 747.

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, Carol Tobin, and Peter Breen proofed part of the document. We hope this material will assist you as you go through the budget process and into 2007.



Richard Yukubousky  
Executive Director

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# Budget Calendar for Preparation of 2007 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.

<b>Major Steps in Budget Preparation</b>	<b>State Law Time Limitations</b>	<b>Actual 2006 Date</b>
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. <sup>1,2</sup>	September 11
2. Estimates are to be filed with the city clerk.	By fourth Monday in September. <sup>2</sup>	September 25
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 2
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 2
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 2007**

Major Steps in Budget Preparation	State Law Time Limitations	Actual 2006 Date
6. CAO prepares preliminary budget and budget message <sup>3</sup> 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 (HB 1048, Ch. 52 Laws of 2005 and RCW 84.52.070).	November 30 for <i>all</i> cities 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 17
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 4
12. Adoption of budget for 2007.	Following the public hearing and prior to beginning of the ensuing fiscal year.	Day after last day of your public hearing through December 29.
13. Copies of final budget to be transmitted to the State Auditor's Office and to MRSC.		After adoption
<p><sup>1</sup>RCW 35.33.031 actually provides "on <b>or before</b> 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><sup>2</sup>Or 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><sup>3</sup>RCW 35.33.031 and RCW 35A.33.055 specify that the budget message must contain the following:</p> <ol style="list-style-type: none"> <li>1. An explanation of the budget document;</li> <li>2. An outline of the recommended financial policies and programs of the city for the ensuing fiscal year;</li> <li>3. A statement of the relation of the recommended appropriation to such policies and programs;</li> <li>4. A statement of the reason for salient changes from the previous year in appropriation and revenue items;</li> <li>5. An explanation for any recommended major changes in financial policy.</li> </ol>		

## **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 2007-2008 biennium, the last date to pass such an ordinance was June 30, 2006. Cities and town that missed that deadline must wait until the 2009-2010 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, 2007) nor later than the end of the first year of the biennium (December 31, 2007). 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 2007 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 2006 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.	On or before the second Monday in July	July 10
2. Filing of estimates with auditor or chief financial officer by all officials. RCW 36.40.010 and 36.40.030.	On or before the second Monday in August	August 14
3. Preliminary county budget prepared by auditor or chief financial officer submitted to board of commissioners. RCW 36.40.040 and 36.40.050.	On or before the first Tuesday in September	September 5
4. Preliminary budget hearing by board of commissioners. RCW 36.40.070.	First Monday in October	October 2
5. Alternative preliminary budget hearing by board of commissioners. RCW 36.40.071.	First Monday in December	December 4
6. Final budget adoption by board of commissioners. RCW 36.40.080.	Upon conclusion of budget hearing	Practically, December 29

### 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.

## 2006 Legislation That Could Affect Your Budget

### **Funding Municipal Services in Annexation Areas (SSB 6686, Ch. 361, Laws of 2006)**

A city in King, Pierce, and Snohomish counties (except Seattle) may levy a sales tax, to be credited against the state tax, to help it fund services in areas it annexes if it makes a finding that the projected annual costs of providing municipal services in the area is greater than the projected annual general revenue that it expects to receive from that area. The population in the annexation area must be at least 10,000.

If the population in the annexation area is greater than 10,000, but less than 20,000, the city may levy a tax of 0.1 percent. If the population is greater than 20,000, then the rate may be 0.2 percent.<sup>1</sup> The total maximum additional sales tax rate that may be levied is 0.2 percent, meaning that one area with a population of more than 20,000 or two areas with populations of between 10,000 and 20,000 would be allowed.

The new tax rate can be made effective only on July 1 of each year and can be levied for a maximum of 10 years for annexations commenced before January 1, 2010. By March 1 of each year a city must notify the Department of Revenue (DOR) of the threshold amount for the coming fiscal year. The “threshold amount” is the maximum amount of tax distributions the city will receive in the coming year from this new tax and is calculated to be the difference between the city's cost to provide, maintain, and operate municipal services for the annexation area and the general revenues that the cities would otherwise expect to receive from the annexation during a year.

If the threshold amount has been received before the end of the fiscal year, DOR will cease distributions for that fiscal year.

### **Replacement Parts for Some Farm Machinery and Equipment is Exempt from the Sales and Use Tax (HB 2457, Ch.172, Laws of 2006)**

“Eligible farmers” do not need to pay sales tax on replacement parts and machinery for “qualifying farm machinery and equipment.” An eligible farmer is one who had gross sales of \$10,000 or more in the preceding calendar year of agricultural products that he grew or produced. Qualifying machinery or equipment is that which is used primarily for growing and producing agricultural products including farm tractors and other implements. It does not include trucks, for example. Farmers must apply for an exemption certificate.

The Department of Revenue (DOR) estimates that this exemption will cost cities and counties approximately \$1.8 million in 2007 and the loss will be borne primarily by those jurisdictions in rural areas.

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<sup>1</sup>Note, sections of the legislation are inconsistent in stating the required populations. Section 1 (1)(a) says the tax may be imposed if the area has “at least ten thousand people.” Section 1(3), which sets the rate, says the rate is 0.1 percent if the population “is greater than ten thousand and less than twenty thousand.” It then goes on to say that the rate “shall be 0.2 percent for an annexed area in which the population is greater than twenty thousand.” What happens if the population is exactly 10,000 or 20,000 is unclear.

DOR has published a “Special Notice” on this exemption. This notice, along with a copy of the Application for Exemption Certificate for Replacement Parts for Farm Machinery and Equipment, can be found on the DOR Web site at [http://dor.wa.gov/Docs/Pubs/SpecialNotices/2006/sn\\_06\\_FarmReplacementParts.pdf](http://dor.wa.gov/Docs/Pubs/SpecialNotices/2006/sn_06_FarmReplacementParts.pdf).

### **Exemption from the Sales and Use Tax for Farm Fuel Use (HB 2424, Ch. 7, Laws of 2006)**

Sales of diesel and aircraft fuel to a farm user for nonhighway use are now exempt from the retail sales and use tax. To claim the exemption, the user must provide the seller with an exemption certificate. The effective date of this legislation was March 6, 2006.

The Department of Revenue estimates that this exemption will cost cities and counties approximately \$1.2 million a year. As DOR points out in its fiscal note, however, the exemption will affect some areas more than others. “It is presumed that losses would be concentrated in small towns, rural counties, and rural special purpose districts, as sales of farm fuels do not generally take place in urban areas. Jurisdictions where the predominant land use is the cultivation of row crops (primarily grains and beans in Eastern Washington, seed potatoes and peas in Western Washington) would be most affected, as this activity consumes more eligible fuel than other types of agriculture.”

The Department of Revenue has published a “Special Notice” giving more information on this exemption. This notice and a copy of the Farmers' Retail Sales Tax Exemption Certificate can be found at [http://dor.wa.gov/Docs/Pubs/SpecialNotices/2006/sn\\_06\\_farm\\_fuel\\_exemptions.pdf](http://dor.wa.gov/Docs/Pubs/SpecialNotices/2006/sn_06_farm_fuel_exemptions.pdf).

### **New and Revised Provisions for Regional Fire Protection Districts (SHB 2345, Ch. 200, Laws of 2006)**

This bill provides for some changes of the 2004 legislation that established regional fire protection districts. It establishes procedures that must be followed if the district wishes to operate its own ambulance service. Before establishing its own ambulance service, a district must first find that existing private ambulance services are inadequate according to acceptable medical standards and reasonable levels of service and must give those private ambulance services 60 days to meet these standards. These new provisions are almost identical to those in Ch. 482, Laws of 2005, for cities that wish to establish an ambulance utility.

The bill clarifies the voting requirement for approval of a plan and creation of an authority. If the plan authorizes the authority to impose benefit charges or 60 percent voter-approved taxes, then the plan and creation of an authority must be approved by 60 percent of the voters. Otherwise, the plan and creation of the authority can be done with a simple majority vote. If voter-approved bonds and benefit charges are not part of the original plan, they can be put on a ballot at a later date.

The new legislation also sets the debt capacity of a district. There is authority to issue non-voted general obligation debt in an amount equal to three-quarters of one percent (3/4 %) of the assessed valuation of the district. The maximum term is 20 years.

The maximum general obligation debt that may be issued for capital purposes is 1.5 percent, including all the other outstanding general obligation debt, of the assessed valuation of the district. (If the district has issued non-voted general obligation bonds, that reduces the amount that can be issued with voter approval.) This debt must be approved by 60 percent of the voters, with the voter turnout being 40 percent of the number of voters in the authority that voted in the last general state election. The maximum maturity is 25 years.

## Local Infrastructure Financing Tool (E2SHB 2673, Ch. 181, Laws of 2006)

The local infrastructure financing tool (LIFT) program is created by this bill to assist local government with economic development. The maximum annual contribution of the state to public improvements under LIFT is \$5 million of state sales tax that is redirected to the local governments, with the award for any one project being a maximum of \$1 million annually. The funds will be used to pay debt service on bonds. For the first year, \$2.5 million will go to three demonstration projects. The Bellingham Waterfront Redevelopment and Spokane River district projects will each receive \$1 million; the Vancouver Riverwest project gets \$500,000. The deadline for applying to the Community Economic Revitalization Board (CERB) to compete for the remaining \$2.5 million is July 1, 2007.

The number of eligible users of this financing is limited, the kinds of projects also have some limits, and the requirements to be considered for financing are demanding. A local government must create a revenue development area (RDA). The RDA can include no more than 25 percent of the assessed valuation of the sponsoring local government and co-sponsoring local government (if there is one), the total assessed valuation of the area can be no more than \$1 billion, and the maximum value per square foot is \$70. Only one RDA may be created in a county.

The types of public infrastructure that the LIFT money can finance include: street, bridge, and road construction and maintenance, including highway interchange construction; water and sewer system construction and improvements, including wastewater reuse facilities; sidewalks, traffic controls, and streetlights; parking, terminal, and dock facilities; park and ride facilities of a transit authority; park facilities and recreational areas including trails; storm water and drainage management systems; and expenditures for facilities and improvements that support affordable housing as defined in RCW 43.63A.510.

The criteria that will be used in making an award include:

- the potential of the project to enhance the sponsoring local government's regional and/or international competitiveness;
- the project's ability to encourage mixed use development and the redevelopment of a geographic area;
- achievement of an overall distribution of projects statewide that reflect geographic diversity;
- the estimated wages and benefits for the project being greater than the average labor market area;
- the estimated state and local net employment change over the life of the project;
- the estimated state and local net property tax change over the life of the project; and
- the estimated state and local sales and use tax increase over the life of the project.

The local government must certify, among other things, that it has entered or expects to enter a contract with a developer relating to development of private improvements within the RDA. It must make findings that the LIFT funds are not expected to be used for the purpose of relocating a business from elsewhere in the state into the revenue development area; that it will improve the viability of existing business entities within the revenue development area; and that it will increase private residential and commercial investment and employment in the RDA.

Note that our interpretation of the language in the bill is that although the CERB will make an award of a specified annual amount (up to \$1 million), the RDA might not receive that amount every year. Calculations will be made each year of the increase in the sales and property tax that the state received from the RDA in the prior year compared to the base year. The amount that the local government received from increase in the sales and property tax from the RDA in the prior year compared to the base year plus other local government contributions will also be calculated. These amounts will be compared to the CERB award, and the local government will get the smallest of these amounts.

If bonds were issued on the assumption that the RDA would be receiving the amount of the CERB award each year, the actual funds received could fall short of the amount required for debt service.

## **Regional Transportation Investment Districts and Transportation Benefit Areas (ESHB 2871, Ch. 311, Laws of 2006)**

Most of this bill deals with the regional transportation investment district (RTID) composed of King, Snohomish, and Pierce counties. It has provisions dealing with governance, and it requires the RTID and Sound Transit to put their list of projects and funding proposals on the same November 2007 ballot, with both having to pass for either to be successful. There are specific requirements for proposals dealing with the 520 bridge and the Alaskan Way Viaduct.

If the RTID vote fails in November 2007, the three counties (and their cities) may form transportation benefit areas and levy a sales tax of 0.1 percent and a motor vehicle excise tax of 0.8 percent. Currently they are not allowed to form transportation benefit areas.

Of interest to cities and counties in the rest of the state is the amendment to RCW 36.73.015. The Association of Washington Cities in its "Legislative Update 2006: Expanded Transportation Benefit District Authority" states that this is a "significant improvement" over the prior legislation (<http://www.awcnet.org/documents/TBDs.pdf>):

The requirement that 60 cents on the dollar go to highways of statewide significance is repealed. Funds are to be dedicated to a "transportation improvement," which is defined as a project contained in the transportation plan of the state or Regional Transportation Planning Organization. Transportation improvement includes state highways, principal arterials (of regional significance), public transportation, and "other projects" of regional significance. It also allows for the operation, preservation, and maintenance of identified facilities or programs. Note: regional significance is defined by its RTPO membership.

If Initiative 917, which appears to have enough signatures to qualify for the November ballot, passes, it will eliminate the motor vehicle excise tax and the \$100 license fees that are major funding sources for the regional transportation investment district and the transportation benefit areas.

## **Some GMA Deadlines Extended (ESSB 6427, Ch. 285, Laws of 2006)**

Counties that had GMA updates due in 2005, 2006, or 2007 are given three additional years to complete the update if their population is less than 50,000 and their population increased by 17 percent or less in the prior 10 years.

Cities that had GMA updates due in 2005, 2006, or 2007 are also given three additional years to complete the update if their population is 5,000 or less and their population has increased by the greater of either 100 persons or less or 17 percent or less in the prior 10 years.

Comprehensive plans can now be amended more than once a year to enact a planned action under RCW 43.21C.031(2) as long as public participation and notice requirements are met.

## **Interlocal Cooperation Agreements May Now Be Filed Electronically (HB 2676, Ch. 32, Laws of 2006)**

And, there is not much more to say. As an alternative to filing with the county auditor, RCW 39.34.040 is amended to allow filing agreements by listing them “by subject on a public agency's Web site or other electronically retrievable public source.”

## **Second Class Cities and Towns May Now Use Checks Rather Than Warrants (HB 3056, Ch. 41, Laws of 2006)**

Second class cities and towns may now pass an ordinance to pay the claims and other obligations of their jurisdictions by checks if the applicable fund is solvent at the time the check is issued. Otherwise a warrant must be used. To use checks, the city or town must, in its ordinance, designate the qualified public depository (see <http://www.tre.wa.gov/PDPC/bank043006.pdf> for a list of qualified public depositories) it will use to do its checking and identify the officers who are authorized or required to sign the checks.

## **Modifying the Due Dates of Excise Taxes (HB 2671, Ch. 256, Law of 2006)**

In 2003, the state changed the due date of state excise taxes (B&O taxes, sales and use taxes, and state utility taxes) from the 25th of the month following the month in which the taxable activities took place to the 20th of the month. Now, with this legislation, the date shifts back to the 25th of the month.

Cities and counties pay these taxes and will want to note the date due change for their taxes due, starting with their August 2006 tax returns.

# 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](http://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 2006 and 2007.

We have forecasts for the national inflation rates from the Philadelphia Federal Reserve Bank, which surveyed 44 economists; the Research Seminar in Quantitative Economics at the University of Michigan; The Wall Street Journal, which surveys 56 economists twice a year (probably some of the same economists that the Philadelphia Federal Reserve surveys); Global Insight; 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 have used that as a guide.

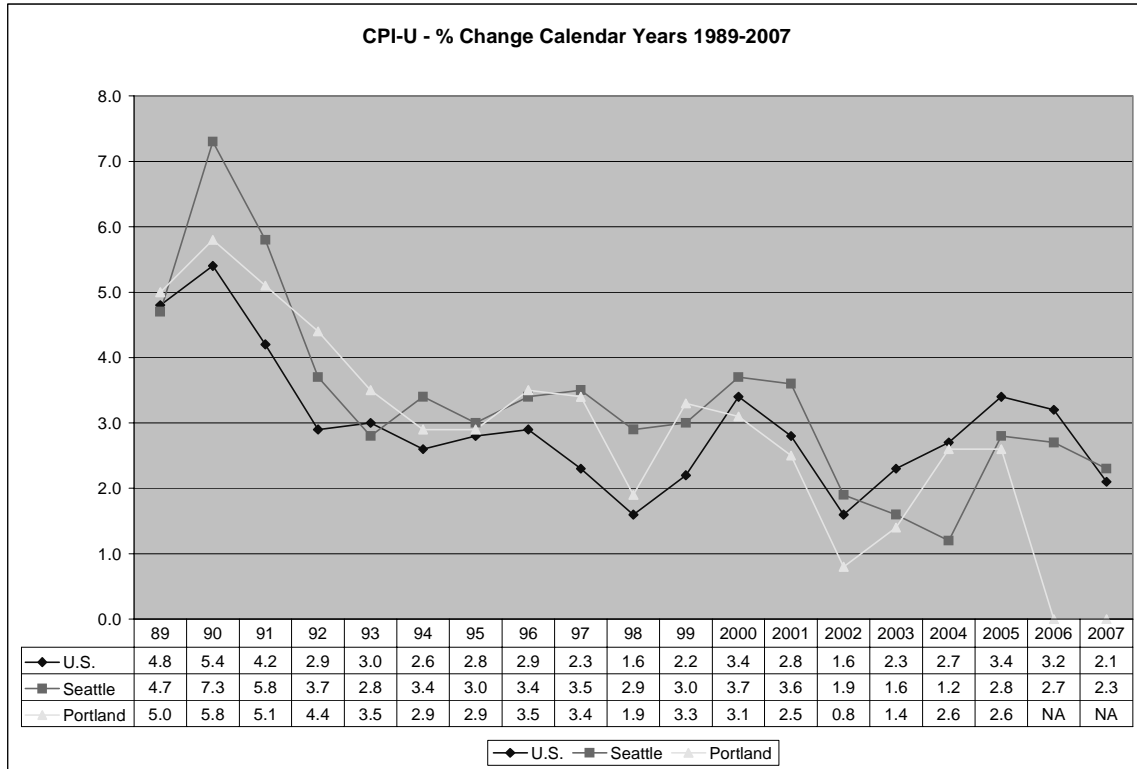
For the Seattle-Tacoma area, we depend on the Office of the Forecast Council and local economists. We are unable to get forecasts for the Portland area.

The growth of first quarter gross domestic product (GDP) was recently revised upward to 5.6 percent over the first quarter of 2005. Although the growth in the second quarter is expected to be less, the Federal Reserve is clearly concerned that an overheated economy will produce more inflation. It raised its target interest rate to 5.25 percent in June, hoping to slow down the economy. But, some economists are afraid that the Fed is overreacting and, by making it more costly for firms to borrow, the Fed could push the economy into a slump. The goal is to have a “soft landing” – slowing economic growth just enough to restrain inflation.

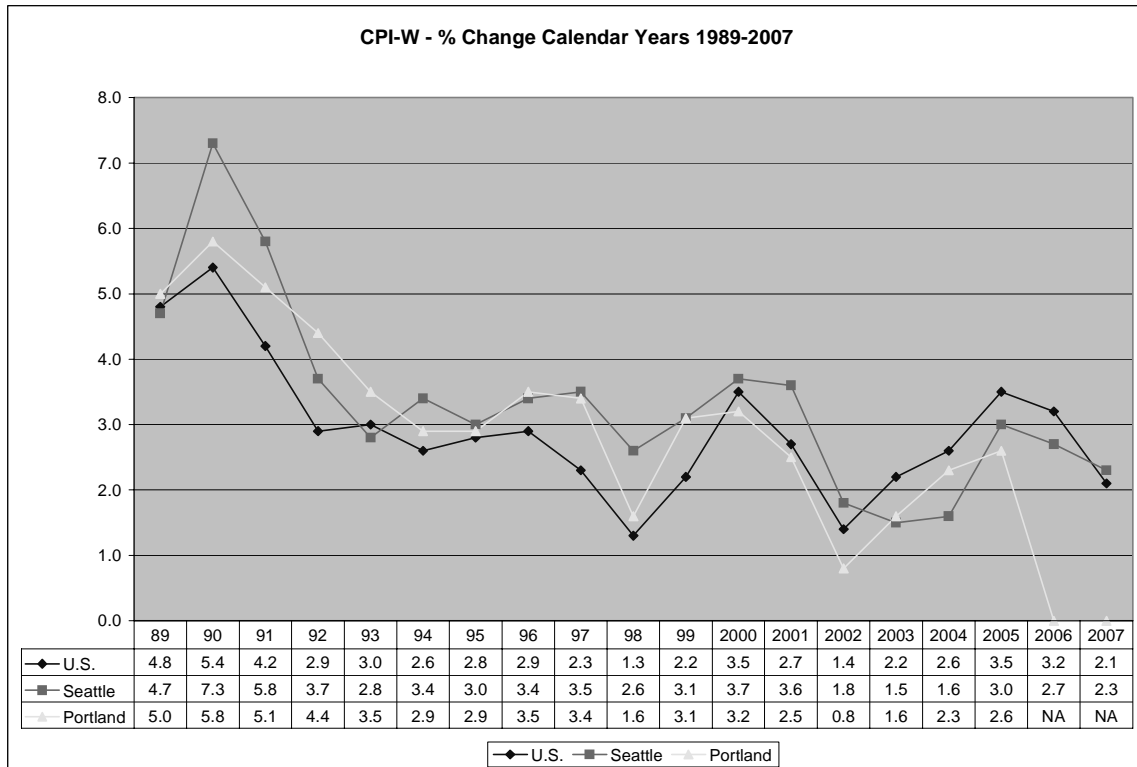
Although recent increases in the CPI have been higher than we have seen in recent years (see Table 1), for now there does not appear to be much of a chance that we will see the increasing wage-price spiral of the late 1960's because 1) businesses are still managing to squeeze out productivity gains to control costs and 2) the globalization of the economy is providing a check on prices through the importation of low-priced Chinese and other foreign goods.

Although individual forecasters have different opinions, all the reports to which we have access are predicting a lower inflation rate as measured by the CPI in 2007 as compared to 2006.

**Budget Suggestions for 2007**



Figures for 2006-2007 are Estimates



Figures for 2006-2007 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.
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)
	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)	

## Budget Suggestions for 2007

		All Urban Consumers (CPI-U)			Urban Wage Earners & Clerical Workers (CPI-W)		
Year	Month	Seattle	Portland	U.S.	Seattle	Portland	U.S.
	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)
	June	195.3 (1.9)		189.7 (3.3)	190.4 (2.5)		185.3 (3.2)
	First half '04	194.0 (1.3)	189.8 (2.0)		188.7 (1.3)	184.9 (1.8)	
	July			189.4 (3.0)			184.9 (3.0)
	August	194.6 (0.1)		189.5 (2.7)	189.6 (0.7)		185.0 (2.6)
	September			189.9 (2.5)			185.4 (2.4)
	October	196.5 (1.4)		190.9 (3.2)	191.6 (2.0)		186.5 (3.2)
	November			191.0 (3.5)			186.8 (3.7)
	December	195.1 (2.1)		190.3 (3.3)	190.3 (2.7)		186.0 (3.4)
	Second half '04	195.4 (1.2)	192.5 (3.2)		190.5 (1.8)	187.0 (2.7)	
	ANNUAL AVE.	194.7 (1.2)	191.1 (2.6)	188.9 (2.7)	189.6 (1.6)	185.9 (2.3)	184.5 (2.6)
2005	January			190.7 (3.0%)			186.3 (3.0%)
	February	197.6 (2.1)		191.8 (3.0)	192.4 (2.4)		187.3 (3.0)
	March			193.3 (3.1)			188.6 (3.1)
	April	201.3 (3.6)		194.6 (3.5)	196.2 (3.8)		190.2 (3.7)
	May			194.4 (2.8)			190.0 (2.9)
	June	199.8 (2.3)		194.5 (2.5)	194.8 (2.3)		190.1 (2.6)
	First half '05	199.2 (2.7)	194.5 (2.5)		194.1 (2.9)	189.4 (2.4)	
	July			195.4 (3.2)			191.0 (3.3)
	August	199.9 (2.7)		196.4 (3.6)	195.3 (3.0)		192.1 (3.8)
	September			198.8 (4.7)			195.0 (5.2)
	October	203.3 (3.5)		199.2 (4.3)	198.6 (3.7)		195.2 (4.7)
	November			197.6 (3.5)			193.4 (3.5)
	December	200.9 (3.0)		196.8 (3.4)	196.1 (3.0)		192.5 (3.5)
	Second half '05	201.3 (3.0)	197.5 (2.6)		196.5 (3.1)	192.2 (2.8)	
	ANNUAL AVE.	200.2 (2.8)	196.0 (2.6)	195.3 (3.4)	195.3 (3.0)	190.8 (2.6)	191.0 (3.5)
2006	January			198.3 (4.0%)			194.0 (4.1%)
	February	203.6 (3.0)		198.7 (3.6)	198.0 (2.9)		194.2 (3.7)
	March			199.8 (3.4)			195.3 (3.6)
	April	207.4 (3.0)		201.5 (3.5)	202.5 (3.2)		197.2 (3.7)
	May			202.5 (4.2)			198.2 (4.3)

## Implicit Price Deflator for Personal Consumption Expenditures

### Monthly Index and Cumulative Percentage Change from July 2005

	Jul 05	Aug	Sep	Oct	Nov	Dec	Jan 06	Feb	Mar	Apr
<b>Orig. Index</b>	111.177	111.646	112.702	112.957	112.470	112.462	112.988	113.059	113.484	114.028
<b>Cum. % Change</b>		0.422	1.372	1.601	1.163	1.156	1.629	1.693	2.075	2.564
<b>IPD % Proj.</b>		5.062	8.230	6.404	3.489	2.774	3.258	2.902	3.113	3.419
<b>Prev. 12 Mo. % Change</b>		2.943	3.784	3.500	2.795	2.796	3.100	2.903	2.867	2.945

**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 2005. The third row represents the projections of the annual IPD since July of 2005 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 a bit different from the rate we have been seeing so far this year. It all depends on how much they “tweak” the data.

As you can see in the above table, our “forecasts” range from an increase of 2.564 percent to 3.419 percent. The final number will probably be somewhere in that range.

We will publish the annual inflation factor in our Focus section of the MRSC Web site as soon as we can get the information from the BEA.

In the meantime, you can track the progress of the IPD on our Web site at <http://www.mrsc.org/Subjects/Finance/ipdcht.aspx>. Information for May will be available around the first of August.

# City and County State-Shared Revenues

## Population Forecast

The official April 1, 2006 **city** population to be used for distributions in 2007 is 3,901,886. This is 2.2 percent more than the population estimate for April 1, 2005. We have had no incorporations during the past year. However, annexation activity has picked up since the Washington State Supreme Court reversed itself on its ruling in *Grant County Fire Protection District No. 5 v. City of Moses Lake (2004)*, finding the petition method of annexation constitutional. Almost a third of the growth in city population in the past year came from annexations. In past years, we have adjusted the April 1 numbers upward for annexations and incorporations that we knew were in the pipeline. (Cities that annex qualify for state-shared revenue distributions on their new population base, starting the first day of the quarter after the annexation. New cities also qualify on the first date of the quarter after their incorporation.) We have made no such adjustments this year.

The Fairwood (King County) incorporation will be on the ballot on September 19. If it is successful, they will incorporate at the end of August 2008, and would begin to receive state-shared revenues the last quarter of 2007. The effect on 2007 per capita revenues would be minimal.

The official April 1, 2006 **county** population is 2,473,714. This is an increase of 1.4 percent from 2005. We have used this number, unadjusted, in making the county forecasts for Liquor Board profits and the liquor excise tax.

## Motor Vehicle Fuel Taxes

**Cities:** Our gasoline and diesel tax forecasts come from Brian L. Calkins, a transportation economist with the Department of Transportation. He says:

Higher gasoline prices have reduced gasoline purchases and tax collections, but a recovering state economy has increased consumption of diesel fuel. Diesel fuel currently comprises about 20 percent of total state motor fuel consumption. Revenue distributions to cities for calendar year 2005 were down by about \$0.5 million compared to the forecast from June 2005 because higher than expected gasoline prices reduced gasoline consumption.

New transportation funding enacted by ESSB 6103, passed by the 2005 Washington Legislature, provides additional revenues to incorporated cities and towns. Cities and towns received 8.3333 percent of a three cent tax increase, beginning July 1, 2005, and 8.3333 percent of another three cent tax increase beginning July 1, 2006. (8.333 percent of three percent equals one quarter (1/4) cent.) Revenue distributions to cities and towns in 2006 from the six cent increase are forecasted at \$10.87 million. This is in addition to the \$79.18 million distributed from the 23 cent base of our motor fuel tax. (*Editor's Note: This is practically identical to the forecast made last year for 2006.*)

See the text in the box on page 18 for information on the 2007 forecast and timing of the receipts. The forecasts for total dollars and per capita amounts are in Tables 3 and 4.

Remember that cities now are getting only one gas tax distribution rather than two. With the passage of SB 5969, all gas tax funds are “unrestricted” for all cities. If, for some reason, your city wants to track the tax

in two pieces for comparability with past years, the old “restricted” portion is 31.86 percent of the “new” total distribution.

**Counties:** *Editor's Note: For the second year in a row, we forgot to tell Brian that we wanted forecast narrative for counties also. However, we have his spreadsheet and can follow his model above for a county forecast.*

*The 2005 distribution to counties was down \$0.9 million (or 0.7 percent) compared to the forecast done in June 2005. The increase in gallons of diesel fuel sold did not fully compensate for the lower gasoline consumption that resulted from higher prices.*

*Like cities, counties received 8.3333 percent of a three cent tax increase, beginning July 1, 2005, and 8.3333 percent of another three cent tax increase beginning July 1, 2006. (8.333 percent of three percent equals one quarter (1/4) cent.) Revenue distributions to counties from the six cent increase in 2006 are estimated to be \$10.43 million. This is in addition to the \$136.63 million distributed from the 23 cent base of the fuel tax. Both are virtually unchanged from the forecast made last year.*

See the text in the box for information on the 2007 forecast and timing of the receipts. The **county** distribution formula includes annual road costs and “need” in addition to population. The county estimates for the coming year, based on these factors, is done by the County Road Administration Board (CRAB) and are shown in Table x.

## Timing of the Revenue Distributions from July 1, 2005 and July 1, 2006 Gas Tax Increases

Cities and counties are each allocated revenues of one-quarter (1/4) cent of the three cent gas tax increases from ESSB 6103 that was passed by the legislature in 2005. The first increase took effect on July 1, 2005; the second on July 1, 2006. The new revenue collected from the second tax increase in July 2006 will be sent to the state in August and distributed to cities and counties in September.

**Cities.** For 2006, approximately \$2.75 of the \$23.46 estimated per capita gas tax revenue in Table 4 comes from the increases on July 1, 2005 and July 1, 2006. Of this \$2.75 amount, approximately \$0.70 is a result of the July 1, 2006 tax increase, which will begin to show up in distributions in September. During the last four months of this year, revenues will be approximately 11 percent higher than for the same months in 2005, and almost all of that will be due to the tax increase.

In 2007, the July 1, 2006 tax increase will continue to provide “new money” through August 2007, with the revenues in the first eight months growing, again, at approximately 11 percent over the same months in 2006. Starting with September 2007, all the tax increases will be in the base. The rate of growth of revenues will settle back to a forecast of 2.5 to 3.5 percent for the next few years. However, that rate of growth will be on a base that is \$4.20 per capita higher than if the tax increases had not taken place.

**Counties:** Counties will receive an estimated \$10.43 million in 2006 from the July 1, 2005 and July 1, 2006 tax increases. Of this amount, approximately \$2.71 million is from the July 1, 2006 tax increase, and it will begin to show up in distributions in September. During the last four months of this year, you should see revenues that are approximately 11 percent higher than for the same months in 2005, and almost all of that will be due to the tax increase. Do not be surprised by this “bump.”

In 2007, the July 1, 2006 tax increase will continue to provide “new money” through August 2007, with the revenues in the first eight months growing, again, at approximately 11 percent over the same months in 2006. Starting with September 2007, all the tax increases will be in the base. The rate of growth of revenues will settle back to a forecast of 2.5 to 3.5 percent for the next few years. Once the tax increases are fully phased in, county gas tax revenues will be approximately \$16 million higher than they would have been without the increase.

## Liquor Revenues

**Liquor Board Profits:** 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.

We have made the Liquor Board profits forecasts in consultation with the new staff person responsible for the forecasting and her supervisor. Since calendar year forecasts were not available, we agreed that the calendar year forecasts would be made by taking their fiscal year (FY) profits forecasts for, say FY 2006 and FY 2007, and averaging them to get a calendar year forecast for 2006. Forecasts for calendar years 2007 and 2008 were made in the same way. In the remainder of this discussion, “200x” means calendar year “200x.”

Revenues for 2005 were about 4.3 percent less than forecast (and 1.3 percent less than was received in 2004). That is actually a pretty good margin of error, since liquor profits are so hard to forecast. However, when we

looked at the 2005 revenues on a quarterly basis, we found that the revenues for the first two quarters were quite robust, but those from the last two quarters dropped almost 20 percent compared to the first two quarters. Revenues for the first two quarters of this year are running at the same low level as the last two quarters of 2005. Hmm. Those four quarters comprise the first year of the 2005-2007 biennial budget.

After doing some research, we discovered that the 2005-2007 state budget included appropriations to the Liquor Control Board for a number of new initiatives and programs. We were not told about these last year. These ventures are all intended to increase profits in the future by increasing revenues or decreasing costs. Their short term effect, however, was to reduce profits for distribution in calendar year 2005. These increased costs affect the revised forecast for 2006 also. It is over eight percent lower than the forecast for last year, although only 2.5 percent lower than the revenues received in 2005.

For 2007, the forecast shows profits increasing by 11.4 percent. This makes some sense. Assuming that there are no more big increases in expenditures, profits will be driven by sales, and we have been told that sales are increasing by 12 percent a year. If this makes you nervous, however, and want to lower your forecast, you should do so. After all, if your forecast is too low, you will still get the revenue, except it will end up in your 2007 year-end fund balance rather than in your 2007 budget. For each one percent you lower the growth rate assumption, lower the forecast of 2007 per capita revenues by 6.7 cents.

**Liquor Excise Taxes.** MRSC takes responsibility for these forecasts. In 2005, liquor excise tax receipts grew by 6.8 percent. The Liquor Board is forecasting a 5.9 percent increase for 2006, which would seem reasonable because the actual growth rate has exceeded that amount in each of the last four years. But, with the receipts for the first two quarters showing only a 2.6 percent increase, a 5.9 percent increase seems unlikely for this year. Therefore, we have assumed a three percent growth rate for 2006.

For 2007, we have assumed a five percent growth rate. Not knowing why the growth rate would suddenly drop in the first two quarters of 2006, we decided to be conservative, even though the average growth rate for the past four years was 7.6 percent.

Remember, incorrect conservative forecasts produce higher year-end fund balances. Incorrect optimistic forecasts may require budget amendments.

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 in 2003 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 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.

<b>Estimated 2007 Revenues Motor Vehicle Fuel Tax</b>		
June 2006 Revenue Forecast: \$155,038,000 County Roadlog Certified January 1, 2005		
<b>County</b>	<b>2007 Allocation Percent</b>	<b>Estimated Revenue</b>
Adams	2.6794	\$4,154,088
Asotin	1.0042	\$1,556,892
Benton	2.1755	\$3,372,852
Chelan	1.5718	\$2,436,887
Clallam	1.3004	\$2,016,114
Clark	4.3649	\$6,767,254
Columbia	0.9569	\$1,483,559
Cowlitz	1.5883	\$2,462,469
Douglas	2.4293	\$3,766,338
Ferry	1.1550	\$1,790,689
Franklin	1.8590	\$2,882,156
Garfield	0.8522	\$1,321,234
Grant	4.1297	\$6,402,604
Grays Harbor	1.5454	\$2,395,957
Island	1.5286	\$2,369,911
Jefferson	0.9299	\$1,441,698
King	10.2197	\$15,844,418
Kitsap	3.7054	\$5,744,778
Kittitas	1.3096	\$2,030,378
Klickitat	1.7922	\$2,778,591
Lewis	2.2588	\$3,501,998
Lincoln	2.7965	\$4,335,638
Mason	1.4882	\$2,307,276
Okanogan	2.2558	\$3,497,347
Pacific	0.9195	\$1,425,574
Pend Oreille	1.0634	\$1,648,674
Pierce	7.5852	\$11,759,942
San Juan	0.6231	\$966,042
Skagit	2.1662	\$3,358,433

<b>County</b>	<b>2007 Allocation Percent</b>	<b>Estimated Revenue</b>
Skamania	0.5754	\$892,089
Snohomish	6.9672	\$10,801,808
Spokane	6.4866	\$10,056,695
Stevens	2.4644	\$3,820,756
Thurston	3.3833	\$5,245,401
Wahkiakum	0.5528	\$857,050
Walla Walla	1.9435	\$3,013,164
Whatcom	2.6272	\$4,073,158
Whitman	2.7544	\$4,270,367
Yakima	3.9911	\$6,187,722
<b>Total</b>	<b>100.0000</b>	<b>\$155,038,000</b>

**Table 2**

<b>Summary of Local Share of State-Shared Revenues</b> <b>Total Dollar Amounts – 2004 to 2007</b> <i>(All Cities and Towns)</i>				
	2004	2005	2006 Revised	2007 Estimate
Gas Tax (unrestricted)	\$52,464,655	NA	NA	NA
Gas Tax (restricted)	24,530,730	NA	NA	NA
Gas Tax (NEW unrestricted)*	NA	80,696,303	90,052,000	97,607,000
Profits of Liquor Board	27,093,780	26,749,250	26,098,000	29,094,000
Liquor Tax	14,472,780	15,455,400	15,900,000	16,695,000
Criminal Justice - former CTED programs	2,706,831	2,788,052	2,870,000	2,956,000
Criminal Justice – Population-based	802,024	826,089	850,000	876,000
<b>Total</b>	<b>\$122,070,800</b>	<b>\$126,515,094</b>	<b>\$135,770,000</b>	<b>\$147,228,000</b>

**Table 3**

\*To get numbers for 2004 comparable to those for the following years, add the two rows above.

<b>Per Capita Amounts – 2000 to 2007</b> <i>(All Cities and Towns)</i>								
	2000	2001	2002	2003	2004	2005	2006 Rev.	2007 Est.
Gas Tax (unrestricted)	\$15.12	\$14.66	\$14.38	\$14.19	\$14.03	NA	NA	NA
Gas Tax (restricted)	7.07	6.85	6.72	6.64	6.56	NA	NA	NA
Gas Tax (NEW unrestricted)*	NA	NA	NA	NA	NA	21.33	23.46	24.95
Profits of Liquor Board	6.06	5.36	5.46	6.26	7.24	7.07	6.80	7.44
Liquor Tax	3.27	3.35	3.51	3.57	3.87	4.09	4.15	4.27
Criminal Justice - former CTED programs	NA	NA	NA	NA	0.72	0.74	0.75	0.76
Criminal Justice – Population-based	0.27	0.21	0.21	0.21	0.21	0.22	0.22	0.22
<b>Total</b>	<b>\$34.47</b>	<b>\$30.43</b>	<b>\$30.28</b>	<b>\$30.87</b>	<b>\$32.63</b>	<b>\$33.45</b>	<b>\$35.38</b>	<b>\$37.64</b>

**Table 4**

\*To get numbers for 2003 and 2004 comparable to those for the following years, add the two rows above.

<b>Summary of Local Share of State-Shared Revenues</b> <b>Total Dollar Amounts – 2004 to 2007</b> <i>(All Counties)</i>				
	<b>2004</b>	<b>2005</b>	<b>2006 Revised</b>	<b>2007 Estimate</b>
Profits of Liquor Board	\$7,254,836	\$7,186,437	\$7,092,000	\$7,904,000
Liquor Excise Tax	3,233,695	3,474,850	3,575,000	3,764,000
<b>Total</b>	\$10,488,531	\$10,661,287	\$10,667,000	\$11,668,000

**Table 5**

<b>Per Capita Amounts – 2000 to 2007</b> <i>(All Counties)</i>								
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006 Rev.</b>	<b>2007 Est.</b>
Profits of Liquor Board	\$2.16	\$2.17	\$2.23	\$2.64	\$3.03	\$2.95	\$2.94	\$3.19
Liquor Excise Tax	1.00	1.10	1.14	1.23	1.35	1.43	1.48	1.52
<b>Total</b>	\$3.16	\$3.27	\$3.37	\$3.87	\$4.38	\$4.38	\$4.42	\$4.71

**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 2006, the "loss experience" from fire for the homeowner's category was higher than we estimated and, therefore, the amount of that category's premium going into the pool to be distributed was higher than estimated. In addition, the number of firefighters fell. The result was that the "ratio value" (the amount of the tax allocated per firefighter) was \$741 compared to the \$696 we forecast.

For 2007 we are assuming there will be no growth in the number of firefighters and that insurance premiums increase by four percent. We have also assumed that the percent of losses due to fire follow their historical norms. These assumptions produce a ratio value of \$709.

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.

<b>Distribution of Fire Insurance Premium Tax – RCW 41.16.050</b> <i>May 2006</i>			
<b>City/District</b>	<b>Ratio Value</b>	<b>Number of Paid Firefighters as of January 1, 2006</b>	<b>Amount<sup>1</sup></b>
Aberdeen	\$741.14	35	\$ 25,940.18
Anacortes		18	13,340.67
Auburn		76	56,327.25
Bellevue		199	147,488.47
Bellingham		130	96,349.25
Bothell		49	36,316.26
Bremerton		56	41,504.29
Camas		36	26,681.33
Centralia		20	14,822.96
Chehalis		13	9,634.92
Edmonds		52	38,539.70
Ellensburg		21	15,564.11
Everett		179	132,665.50
Hoquiam		23	17,046.41
Kelso		12	8,893.78
Kennewick		75	55,586.11
Kent		149	110,431.06
Kirkland		75	55,586.11
Longview		42	31,128.22
Lynnwood		55	40,763.14
Mercer Island		29	21,493.29
Moses Lake		21	15,564.11
Mount Vernon		35	25,940.18
Olympia		79	58,550.70
Pasco		47	34,833.96
Port Angeles		23	17,046.41
Port Townsend		10	7,411.48
Pullman		31	22,975.59
Puyallup		55	40,763.14

<b>Distribution of Fire Insurance Premium Tax – RCW 41.16.050</b> <i>May 2006</i>			
<b>City/District</b>	<b>Ratio Value</b>	<b>Number of Paid Firefighters as of January 1, 2006</b>	<b>Amount<sup>1</sup></b>
Raymond		13	9,634.92
Redmond		133	98,572.69
Renton		105	77,820.55
Richland		56	41,504.29
Seattle		998	739,665.77
Shelton		7	5,188.04
Spokane		277	205,298.01
Sumner		20	14,822.96
Sunnyside		13	9,634.92
Tacoma		398	294,976.93
Toppenish		5	3,705.74
Tukwila		62	45,951.18
Vancouver		179	132,665.50
Walla Walla		46	34,092.81
Wenatchee		34	25,199.03
Yakima		80	59,291.85
King County #2		37	27,422.48
King County #10		120	88,937.77
Spokane County #1		145	107,466.47
<b>Totals</b>		<b>4,373</b>	<b>\$3,241,040.49</b>
<sup>1</sup> The 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.			

Table 7

## What's Ahead for Cities and Counties in 2008?

This is 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. As we mentioned in the “Population Forecast” section on page 16, Fairwood in King County (24,500) will have an incorporation election on September 19. If successful, it would increase the number of people sharing in city state-shared revenues beginning October 2007. Federal Way in King County hopes to have an annexation election (20,000 population) in November 2007. If successful, it would begin receiving state-shared revenues in the second quarter of 2008. Vancouver plans on annexing an area that includes 70,000 in the next year and a half. We have assumed for these calculations that the annexation will be effective January 1, 2008. Apparently, they are not required to have an election because they have covenants signed by property owners to whom they extended water and sewer services in past years.

Below you will find a table that shows forecasts of 2008 per capita revenues for cities under two scenarios: 1) that none of the incorporations or annexations listed above take place, and 2) that they all take place at the times we have assumed. These provide “bookend” forecasts, with the results probably being somewhere in between.

You will notice that the county table has only one revenue column. That is because the Office of Financial Management will not adjust county populations from any annexations or incorporations for state-shared revenue purposes until it does the April 1, 2008 estimates, which will not be used to distribute state-shared revenues until 2009. We will have an article explaining how this works in next year's *Budget Suggestions*.

<b>City Per Capita State-Shared Revenue Estimates – 2008</b>		
	<b>With No Incorporations/ Annexations</b>	<b>With Incorporations/ Annexations</b>
Gas tax (NEW unrestricted)	\$25.72	\$25.14
Liquor board profits	8.31	8.13
Liquor excise tax	4.45	4.35
Criminal Justice (former CTED programs)	0.77	0.76
Criminal Justice (population)	0.23	0.22
<b>Total</b>	<b>\$39.48</b>	<b>\$38.60</b>

<b>County Per Capita State-Shared Revenue Estimates – 2008</b>	
Liquor board profits	\$3.50
Liquor excise tax	1.58
<b>Total</b>	<b>\$5.08</b>

# Municipal Budgeting at the Age of Nine

by Lynn Karl Nordby

I got my introduction to municipal budgeting at the age of nine when my Dad was appointed City Manager of Fairbanks, Alaska. At the time all I knew was that we weren't going to be seeing much of him for a while during the process and as small compensation we'd get to enjoy some of the things for dinner that we liked and Dad didn't. Little did I realize that just fifteen years later I'd be on my own as a new City Administrator with my first city budget to prepare and submit.

Reflecting on over thirty city budgets prepared and presented, I'd like to share some thoughts with the many dedicated public officials, elected and appointed who'll use the booklet this year in preparing their own city's budgets.

It is often said that "The Devil is in the details". When it comes to the city budget however, details can be "too much of a good thing". Certainly a useful budget is built from the many detailed ideas justified, submitted, aggregated, estimated, totaled and balanced but all too often, a sharp focus on the details of a line item budget can take the elected officials eyes off "*El Photo Grande*", the big picture. Sometimes it is helpful to step back from all the detail and put your eyes into soft focus, look at the department or program under consideration as a whole and ask a simple question, "Are we (am I) satisfied in general with the performance and services delivered by this program or department?" Once this threshold question has been asked it's easier to identify and deal with the issues necessary to bring the program into line with your expectations.

After I had been with one city for a number of years, going over the annual budget line by line with the City Council in multiple budget study sessions every fall, one of the Council members with the most seniority asked a simple question; why were we going over every department's budget line by line? Often the Council was already satisfied with the department's performance and the only questions seemed mostly routine inquiries about details having little to do with the overall mission and function of the department. He suggested that the following year the Council ask that threshold question of each department first *and if* they could say yes *and if* they believed the departmental budget as proposed was reasonable and in line with expectations they would simply move on to consideration of the next department/program.

Those "and ifs" are big! We're back to the details again. This doesn't just happen. For the City Council to have the confidence in the city staff there has to be a level of trust and experience between the staff and elected officials that's earned. Its incumbent on the staff to build the budget that is submitted with careful attention to the details that the elected officials won't necessarily scrutinize but for which they will never the less be responsible. The staff must be prepared with sufficient detail to answer any question that may arise just as they would if the budget were being reviewed in detail.

That next year when we tried it for the first time we discussed the process with the City Council beforehand and agreed that we would have as much detail available in reserve for all city operations as we would have had for a line item review. We wanted to be able to answer any question that might arise and we wanted the Council to feel assured that we had anything they needed if they wanted it. In our presentation to the Council, in addition to a very simplified numerical budget we included a series of issue papers for any new program or additional staff position. These issue papers clearly described what differed from the previous year in both cost and operation. If the Council chose to delete one of these proposals that had been budgeted, it was simple to subtract it from the bottom line for that department. The Council knew what was being proposed

and what it cost. Instead of focusing time and energy going over the details of a budget for a department they already knew and understood, they spent their time on what was going to make a difference.

The result: a budget review process that had taken several hours a night for several nights the previous year was reviewed in one evening in less than two hours!

The ability to achieve as smooth a budget process as I've described is based on the mutual trust between the participants. Early in my experience I would spend much of my budget preparation time cutting department requests in order to be able to submit a preliminary budget to the City Council that stayed within projected revenue. Department directors routinely submitted budget requests for more than they expected to ultimately be approved in the hope that the final budget would be sufficient or maybe even have a little padding for new programs or unexpected contingencies. This left me with the drudgery of balancing the budget and the directors with the risk that I'd cut something really important to them. This was a waste of our time, so I made them a deal; Submit a realistic budget and if you come up short I'll be with you in front of the Council to ask for more, snow me and you're on your own. It worked! The first year we had a budget that was within projected revenues on the first try!

Later in my career, after several statewide initiatives had complicated the revenue picture and generally reduced our options, I was approached by the city's department directors who asked if they could work together, on their own, without involving me, to see if they could submit a budget that was balanced both in sum and between their interests, before they submitted it to me for preparation of the official preliminary budget. They successfully worked to produce a draft budget that stayed within projected revenue and dramatically reduced the amount of unnecessary effort involved in preparing the preliminary budget.

There's a pattern here, trust and confidence. When these elements are present the entire process is improved, resulting in more effective use of time and resources, less stress and better service to the public.

Mr. Nordby is an ICMA - Credentialed Manager and served as City Administrator for various Washington cities for over thirty years. He is presently Principal Consultant with **MuniFinancial**, a public sector financial services consulting firm with offices in Bellevue, Washington, specializing in economic analysis, rate and fee studies, arbitrage rebate and continuing disclosure, and assessment district administration.

## Pension Rates Again

Last year, in *Budget Suggestions for 2006*, we printed an article on estimated PERS 1 rates for employers in coming years. They were high enough to be pretty scary. If you look at the numbers in the table below for **employers**, you will see that they are still high, but significantly lower than what we published last year. So, what is going on here?

The main difference is that the rates we gave you last year included estimates of the contributions needed to cover future liability for “gain-sharing,”<sup>1</sup> while the new numbers do not. The new projected rates do include contributions to the unfunded liability in the basic plan, however, beginning January 1, 2007.

Many argue that gain-sharing need not be paid. However, employee groups will almost certainly seek other benefit enhancements if gain-sharing is eliminated. Therefore, the bottom line is that the PERS 1 rates in the table for **employers** are the lowest you can expect to see. They might very well be higher in future years. If you are experiencing revenue “windfalls” this year from, for example, sales tax revenues from new construction, a prudent thing to do would be to establish a reserve as a down payment on these rate increases.

Also note that the new Public Safety Employees' Retirement System (PSERS 2), intended for corrections officers and probation officers, has high employer contributions, going from 6.76 percent effective July 1, 2006 to 9.89 percent effective July 1 2009. These rates will primarily affect county budgets.

*Editor's Note: The material below is reproduced, with permission, from the Association of Washington Cities Legislative Bulletin for June 28, 2006.*

### PSERS Contribution Rates Determined

The new Public Safety Employees' Retirement System (PSERS 2), intended for corrections officers and probation officers, goes into effect on July 1, 2006. The State Actuary has now determined the employer and employee pension contribution rates for the new system, and they are included in the following revised pension contribution rate charts.

The DRS administrative expense rate, which is currently .19%, will decrease to .18% effective September 1, 2006, so the employer rates in this chart differ slightly from those provided in the May issue of the *Legislative Bulletin*.

And remember – **rates shown for 2007 and beyond are preliminary estimates** based on current plan provisions and funding policy. The rates may change if plan experience and investment returns differ from the current assumptions, or if the Legislature approves future benefit enhancements.

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<sup>1</sup>Gain-sharing was created by the 1998 legislature as a way to enhance benefits in some of the retirement plans when the compound rate of return on pension fund assets increases more than 10 percent over a period of four fiscal years. No gain-sharing payments have been made to date. For more information, see the Final Bill report for ESHB 1044. <http://www.leg.wa.gov/pub/billinfo/2005-06/Pdf/Bill%20Reports/House%20Final/1044-S.FBR.pdf>

**Pension Contribution Rates for EMPLOYEES (revised 6/06)**

	<b>Current Rate</b>	<b>Effective 7-1-06</b>	<b>Effective 9-1-06</b>	<b>Effective 7-1-07</b>	<b>Effective 7-1-08</b>	<b>Effective 7-1-09</b>
PERS 1	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
PERS 2	2.25%	3.50%	3.50%	4.06%	4.74%	4.20%
PSERS 2		6.57%	6.57%	6.57%	6.57%	6.57%
LEOFF 1	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
LEOFF 2	6.99%	7.79%	7.85%	8.60%	8.79%	8.68%

Notes on Member Rates:

- The PERS 1 member contribution rate is set in statute at 6%.
- Although the LEOFF 1 member contribution rate is set in statute at 6%, members make no contributions when the plan is fully funded.
- PERS 3 members do not make contributions to the defined benefit portion of their retirement benefit. Employees are required to contribute at least 5% of salary to their defined contribution benefit, and may choose to contribute an additional amount from a schedule of options.

**Pension Contribution Rates for EMPLOYERS (revised 6/06)**

	<b>Current Rate</b>	<b>Effective 7-1-06</b>	<b>Effective 9-1-06</b>	<b>Effective 1-1-07</b>	<b>Effective 7-1-07</b>	<b>Effective 7-1-08</b>	<b>Effective 7-1-09</b>
PERS 1/2/3	2.44%	3.69%	3.69%	5.47%	6.01%	7.57%	7.53%
PSERS 2		6.76%	6.76%	8.53%	8.51%	9.39%	9.89%
LEOFF 1	0.19%	0.19%	0.18%	0.18%	0.18%	0.18%	0.18%
LEOFF 2	4.39%	4.87%	4.90%	4.90%	5.35%	5.46%	5.39%

Notes on Employer Rates:

- Employer rates include a DRS administrative expense rate, which will decrease from .19% to .18% effective September 1, 2006.
- The PERS and PSERS 2 employer rates include an additional 1.77% effective 1-1-07, to reflect resumption of the PERS 1 unfunded liability rate.
- Although the LEOFF 1 employer contribution rate is set in statute at 6%, employers make no contributions (other than the administrative expense rate) when the plan is fully funded.

**Gain-Sharing to be Addressed in 2007**

In anticipation of the 2007 legislative session, the Governor, the Select Committee on Pension Policy and the fiscal committees in the House and the Senate have all begun to consider solutions to the gain-sharing issue. As we've mentioned before, this will be a very contentious issue, with employee groups seeking benefit enhancements before agreeing to the elimination of gain-sharing.

The PERS employer rates shown above do not include a rate to pre-fund the PERS 1 and PERS 3 gain-sharing benefits. To fully fund the existing gain-sharing benefits, employer rates would need to increase by approximately 0.71% effective July 1, 2007.

# Centralized Purchasing or Decentralized Purchasing – That is the Question

by Mike Bailey, Administrator of Finance and Information Services, City of Renton

*Editor's Note: This article is reproduced from the Finance Advisor column on our Web site. MRSC has joined with Toni Nelson, Small Cities Specialist, State Auditor's Office; Gayla Gjertsen, Finance Director, City of Tumwater; and Mike Bailey, Administrator of Finance and Information Services, City of Renton, to bring you the "Finance Advisor" column each month. Check out the archives for articles on everything from why you need fund balances to checking for fraud risks. <http://www.mrsc.org/focus/finadvisor/fina0706.aspx>*

I've worked in cities that had very centralized purchasing (Everett, Lynnwood) and cities that had decentralized purchasing (Wenatchee, Renton) and I've been asked which is best. The answer is – "it depends."

Traditionally, centralized purchasing environments have existed for many of the same reasons that other parts of our bureaucracies were created – to standardize procedures and limit the abilities of individuals to "do their own thing." (See *Reinventing Government* for a great discussion of this topic) Most purchasing managers will also make the case with regard to lower prices from concentrated buying power, better negotiation of agreements and other positive attributes.

At the same time, managers in a decentralized purchasing environment will advise that the lack of "red tape" enables them to do their jobs more efficiently and therefore it is the more cost effective model. They will point to being able to get what they need when they need it without waiting for another agency to acquire it for them, as the prime example.

Let's look briefly at the strengths and weaknesses of each system. This will help you to decide which would work best in your environment.

## Centralized Purchasing

Usually a part of the finance or public works function, a central purchasing office typically involves a professional purchasing agent. The credentials include a Certified Public Purchasing Official (CPPO) or a Certified Purchasing Manager (CPM). This person has both academic and practical accomplishments that relate to their ability to manage a procurement function well. This is a plus and doesn't always exist in a decentralized system.

The central purchasing agent will organize the buying process to maximize the buying power for the city. He/she will help assure conformance to state requirements (and federal in some cases). They will typically do this by advocating for a purchasing policy that interprets how your agency will conduct the procurement process within the laws. This becomes the guidance provided to others working in the entity. The purchasing office is directly involved in observing how this guidance is followed, which helps result in conformance with all the related rules, laws and regulations.

In Everett and Lynnwood we had central purchasing division within the finance department. Lead by a procurement professional, these offices not only acquired goods and services, but they also drafted RFPs, managed small works rosters, assisted with risk management and insurance services, provided oversight on the mail room and copy center, managed the central stores warehouse, and gave advice on specifications to get better bids. They also helped provide leadership and guidance in many other related areas. One in particular (that is often difficult to manage) is the oversight of expiring contracts and the need to conduct a timely process to re-test the marketplace. Managing contracts for goods and services is often a “loose end” in a decentralized system.

## **Decentralized Purchasing**

I have to emphasize that this is not the absence of a system, but is instead a system designed to work through the efforts of numerous persons each independently involved in buying goods and services on behalf of the organization. The only way this can happen with any consistency is to have a solid purchasing policy in place with detailed procedures to help guide the process of buying and inventorying public goods.

Today's financial systems often have a sophisticated purchasing (purchase order) module. They are capable of electronically routing purchase orders and assuring the right level of concurrence within the organization for the purchase of goods. This can be based on the nature of the commodity or the amount of expenditure. They can track the total expended by the agency for a particular commodity and advise when certain levels are attained. Given this level of sophistication, it is possible for an efficient purchasing system to occur within a decentralized environment. However, decentralized can also often be code language for little or no oversight of the purchasing function. This is not good!

In Wenatchee (in the early 1990's), we had a paper system. It consisted of departments calling the finance office to get a “PO number.” When called, we would write the vendor name, the estimated amount to be spent and the account number down in our system as an encumbrance. This served to provide authority for the purchase as well as a list of “encumbrances” for financial tracking. It was very unsophisticated and some could suggest not really much of a system. It did, however, give us a heads-up when a purchase was about to be made and allowed us to do some unofficial coordination of a given commodity.

In Renton, the PO system is automated and the expenditure limits are clearly understood. Most the significant buying occurs against the “state contracts” or within the larger departments which have more sophisticated procurement processes. These larger departments conduct their own bid process and the financial system is used to keep track of commitments and purchase orders. We are reviewing the system to be sure it is efficient and meeting the various needs around the city.

## **A Question of Degree**

The question is not so much one of centralized versus decentralized, but the degree of centralization. Almost all public entities make a least some entity-wide purchasing decisions for such things as fuel, office supplies, technology and the like. Responsibilities for these types of purchases can be shared by finance, public works and others.

The development of a good purchasing policy is fundamental to success for the organization as a whole regardless of your degree of centralization. The central purchasing office helps develop and implement the policy and facilitates the process of acquiring and inventorying the types of goods that you need to efficiently get your work done. In a decentralized system, where a central purchasing office does not exist, it is important to understand where the responsibilities lie. This can also be clarified by the purchasing policy, but who will

lead the development (and enforcement) of purchasing policies in a decentralized system? In fact, it may be more difficult to provide the right amount of focus on this important part of local government administration if the responsibility for the function is vague.

# Initiatives for the November Election

## Initiative 933 (I-933): Government Regulation of Private Property

*Editor's Note: The following material has been reproduced, by permission from the Association of Washington Cities' Web site.*

### INITIATIVE 933 ADVISORY

On February 8 of this year, the Washington State Farm Bureau filed final language with the Secretary of State's office for their so-called "Property Fairness Initiative."

(<http://www.secstate.wa.gov/elections/initiatives/text/i933.pdf>)

As an initiative to the people, it must garner sufficient signatures (225,000) by July 7 to qualify for the November 2006 ballot. (*Editor's Note: More than 300,000 signatures were handed in and it probably will qualify for the ballot.*) If it qualifies and passes, it would become effective 30 days after the election (December 7).

### The Initiative Title As It Would Appear On the Ballot:

"This measure would require compensation when government regulation damages the use or value of private property, would forbid regulations that prohibit existing legal uses of private property, and would provide exceptions or payments."

Proponents (<http://www.propertyfairness.com/>) are currently collecting signatures and are speaking and providing information to various groups and media outlets about what is contained within I-933 and what is driving them to promote it.

Opposition (<http://www.protectcommunities.org/>) has also formed and member interests are speaking and providing information to various groups and media outlets about why I-933 would be detrimental for communities, businesses and citizens.

### What Does Initiative 933 Mean?

There is much disagreement about what it means, although the basic idea is that government should not restrict the use of private property without paying for the decline in value of property resulting from governmental restrictions, no matter how small that decline in value might be. Proponents and opponents have already begun to portray its scope and impacts differently. Because of what many consider to be vague and ambiguous language, it is likely that, should the initiative become law, its scope will be defined by the courts. What seems to be clear, however, is that the initiative, if passed, will have a fundamental impact on how the state and cities, towns and counties regulate land use.

The following is intended to present possible interpretations of the initiative, with the understanding that additional interpretations are likely to emerge over the coming months.

## Overview of Initiative 933

- **Section 1 (Purpose and Findings)** is a statement of intent. It should have no operative effect, but it may be used to assist in interpreting the remaining provisions in the initiative.
- **Section 2 (Consideration of Impact and Definitions)**
  - **Subsection (1)** of this section establishes a process requiring agencies, “prior to enacting or adopting any ordinance, regulation or rule which may damage the use or value of private property,” to consider and document many issues, including the governmental purpose of the proposed action, the connection between the purpose and the action, the potential impacts of the proposed action on the uses of private property, less restrictive alternatives, and the estimated compensation that may need to be paid.
  - **Subsection (2)** defines key terms: “private property,” which is defined broadly as all real and personal property; “damaging the use or value”; and “compensation.”
- **Section 3 (Compensation or Waiver):** This section would require that any governmental agency seeking to enforce or apply a regulation of private property that would result in “damaging the use or value” of such property must pay compensation for that damage in advance. In the alternative, the state or local governmental agency may, where it already has authority to do so, simply refrain from taking such action and thereby avoid liability.
- **Section 4 (No Fee for Seeking Waiver):** State or local governmental agencies are not permitted to charge any fee for considering whether to waive or grant a variance from a regulation to avoid liability for compensation.
- **Section 5 (GMA Amendments):** Development regulations adopted under provisions of the Growth Management Act (GMA) can't prohibit uses legally existing prior to their adoption.

**The remaining provisions (Sections 6 through 10)** are miscellaneous provisions concerning interpretation and effect.

**Answers or potential answers to some of the questions being raised about I-933's impacts on cities and towns.** *Such answers are based upon discussions with a variety of technical and legal experts and a review of a number of I-933 analyses available to AWC staff by early May 2006.*

## Section 2: Consideration of Impact and Definitions

**Q1: How does I-933 affect critical areas regulations that all cities and towns were required by the GMA to adopt and implement?** *(For how it impacts zoning and other regulations, please see Q 3-4.)*

**A:** I-933 appears to affect adoption of critical areas regulations in two ways. First, by defining “damaging the use or value” to specifically include “[p]rohibiting or restricting any use, or size, scope, or intensity of any use legally existing or permitted as of January 1, 1996” – cities and counties will not be able to apply or enforce critical area provisions adopted or amended since 1/1/96 that impose greater restrictions on the use of property without *first* compensating property owners for *any* decline in property value.

Second, it defines “damaging the use or value” to include “[r]equiring *a portion of property* to be left in its natural state or without beneficial use to its owner, unless necessary to prevent immediate harm to human health and safety.” (Emphasis added.) Many critical areas regulations prohibit development in certain

environmentally sensitive areas, such as steep slopes or wetlands or in buffer areas around streams. Consequently, local governments will be required to compensate property owners before applying or enforcing such regulations, *regardless of when they were adopted*, or they would have to waive such regulations (if they have the authority to do so). While these types of regulations, required by the GMA, are based on long-term public health and safety concerns such as preventing landslides or protecting the critical ecological functions of wetlands and streams, it is unlikely that they would be considered “necessary to prevent immediate harm to human health and safety.”

**Q2: All cities and towns are required by the GMA to review and update, if necessary, their required GMA plans and regulations every 7 years. Does revisiting them trigger new obligations under I-933?**

**A:** At least for the GMA review process, that is not likely. Section 2(1) requires an agency to consider and document a series of listed factors “prior to enacting or adopting” an ordinance or regulation that may damage the use or value of private property. That section does not require a city or town to engage in that process prior to “reviewing” or “considering” whether to amend a plan or regulation. A city or town should be free, under this language, to review whether comprehensive plan or development regulation amendments are needed, without engaging in I-933’s study requirements.

Also, since a comprehensive plan, unlike the development regulations that implement it, does not itself regulate the use of property, actions to review and amend a plan would not trigger I-933 requirements.

However, if a city or town decides to proceed with amending its development regulations in response to its GMA-mandated review, then it would need to follow the “consider and document” requirements in section 2(1).

**Q3: What impacts will I-933 have on basic land use regulations in cities, either adopted prior to or since 1/1/96?**

**A:** Those regulations that prohibit or restrict “any use or size, scope, or intensity of any use legally existing or permitted as of January 1, 1996” may be applied and enforced *only* with compensation to affected property owners for any reduction in property value. So, I-933 will affect not only how cities might regulate land use in the future, it will also directly affect how and to what extent they will enforce land use laws they have already adopted.

Other specified types of land use restrictions that may require compensation are not subject to the January 1, 1996 limitation, such as requiring any portion of property to be left in its natural state and prohibiting the maintenance or removal of trees or vegetation.

The scope of other land use restrictions subject to the pay or waive requirement is less clear. For example, a local government cannot, without compensation, prohibit “actions by a private property owner reasonably necessary to prevent or mitigate harm from fire, flooding, erosion, or other natural disasters or conditions that would impair the use or value of private property.” See Section 2(b)(iv). How will it be determined what actions are “reasonably necessary” to prevent or mitigate those disasters or conditions?

**Q4: Is there agreement on what land use actions by local governments are exempt from the compensation or waive requirements?**

**A:** No, there is much room for interpretation as to what is exempt under Section 2(2)(c), and the exemptions raise additional questions as to the initiative’s scope. This exemption section states that “damaging the use or value” of property does not include “restrictions that apply equally to all property subject to the agency’s jurisdiction.” However, that section then includes specific examples of restrictions that are exempt, even though cities might not apply them equally to all property within a jurisdiction. For example, the exemptions

include those that limit “the location or operation of sex offender housing or adult entertainment.” Cities that regulate adult entertainment generally limit them to certain zones, so it would appear that those restrictions don’t “apply equally” to all property within those cities.

So, this raises the issue of what is meant by “apply equally.” Building height restrictions aren’t normally the same in residentially and commercially zoned areas and may vary within each. Do they have to be the same everywhere in a city to avoid compensation for greater restrictions enacted after 1/1/96? It would appear so.

The initiative exempts regulations that restrict the use of property “when necessary to prevent an immediate threat to human health and safety,” yet it does not define what is meant by “immediate.” Does this mean that cities cannot regulate common nuisances such as junk vehicles, which may not present such an “immediate” threat to public health and safety, without compensation?

The exemptions also include matters that do not affect the use of private property, such as “worker health and safety laws” and “wage and hour laws,” and regulations adopted by the federal government, such as “chemical use restrictions that have been adopted by the United States environmental protection agency.” Such exemptions suggest a very broad scope to the initiative.

In short, the exemptions identified in Section 2(2)(c) raise many questions as to what regulation I-933 applies to.

**Q5: What local ordinances, regulations or rules may damage the use or value of private property?**

**A:** It appears that the list of regulations, beyond those specifically identified, that “may” damage the use or value of private property would be very broad. Because the specific list of laws identified in section 2(2)(b) as “damaging the use or value” is not exclusive, property owners clearly may claim that regulations in addition to those specifically listed require compensation (or waiver) if such regulations fit this narrative definition. Since the definition of “damaging the use or value” includes subjective language such as “the cost of which in all fairness and justice should be borne by the public as a whole,” it is difficult to identify specific examples of regulations that may meet this definition.

**Q6: Eight new cities have incorporated in Washington since 1/1/96 – Edgewood, Lakewood, Maple Valley, Covington, Kenmore, Sammamish, Liberty Lake, and Spokane Valley. Does I-933 impact planning and zoning in new cities any differently from other cities?**

**A:** Cities that incorporated after January 1, 1996 will be impacted differently than other cities by section 2(2)(b)(i), because that provision exempts regulations that prohibit or restrict “any use, or size, scope, or intensity of any use legally existing or permitted as of January 1, 1996.” *All* of these eight cities' land use regulations were enacted after that date, so, to the extent that those cities' regulations are more restrictive than their counties' regulations that were in effect on that date, they cannot be enforced or applied without compensation.

**Q7: In addition to cities, towns and counties, what other “agencies” would be required to consider and document various factors before “enacting or adopting any ordinance, regulation or rule which may damage the use or value of private property” within cities and towns? For instance, is the state legislature included? Individual state agencies?**

**A:** Most certainly, individual state agencies that adopt regulations or rules impacting private property would be required to adhere to these requirements.

As with many of the questions raised by I-933, arguments could be made on both sides of the issue on whether it applies to certain actions of the Legislature. The answer likely depends on whether a court

determines (1) that the legislature is an “agency,” and (2) that the legislature adopts “ordinances, regulations, or rules.”

**Q8: How does I-933 affect a city or town's obligations to adopt and enforce Shorelines Management Act (SMA) plans and regulations as mandated by state law?**

**A:** A local government cannot, without compensation, enforce an SMA regulation that falls within the “damage” definition of section 2(2)(b)(ii). This definition specifically includes matters within the purview of SMA regulations – “[p]rohibiting the continued operation, maintenance, replacement, or repair of existing tidegates, bulkheads, revetments, or other infrastructure reasonably necessary for the protection of the use or value of private property.” This appears to apply regardless of how long ago prohibitions were enacted. Other matters within SMA jurisdiction, beyond those specifically identified, may also require compensation to enforce.

However, absent court interpretation or legislative clarification, it isn't clear whether a local government would have the option to waive enforcement of state-mandated and approved regulations like those adopted under the SMA.

**Q9: Would I-933 affect the authority of local governments to impose temporary moratoria (“time outs”) on land use actions?**

**A:** I-933 is unclear on this point. Section 5 prohibits a local government from adopting GMA regulations that “prohibit uses legally existing on any parcel prior to their adoption.” While a moratorium does not strictly prohibit any uses, it may prevent property owners for a period of time from applying for a permitted use. A property may claim that the effect is the same, albeit temporary, and that a moratorium may not be adopted.

With respect to moratoria adopted under laws other than the GMA, I-933's compensation provisions do not specify that the prohibitions must be permanent. As such, courts might determine that temporary moratoria are allowed, but would likely have to specify under what circumstances.

**Q10: Section 2(2)(c)(i) includes in the list of regulations that are exempt from the compensation requirement regulations “[r]estricting the use of property when necessary to prevent an immediate threat to human health and safety.” What is an “immediate” threat?**

**A:** The answer is not clear. If a court were to use the dictionary definition, then this exemption would only narrowly apply to regulations necessary to prevent a threat to human health and safety that was occurring or was about to occur in the very near future. Regulations to prevent a direct discharge of contamination into a drinking water source, for example, would probably qualify. But whether regulations concerning longer-term threats, such as regulations for septic systems or the siting and operation of a landfill, would be exempt is unclear.

**Q11: Section 2(2)(c)(ii) exempts regulations “[r]equiring compliance with structural standards for buildings in building or fire codes to prevent harm from earthquakes, flooding, fire, or other natural disasters.” Does this mean that any building code regulation that does not have to do with preventing “harm from earthquakes, flooding, fire, or other natural disasters” and that was not in place on January 1, 1996, cannot be enforced unless a city pays to do so?**

**A:** The answer to this question will depend on how the courts interpret the “apply equally” criterion, as discussed in **Q4** above. If section 2(2)(c) is interpreted to exempt from the compensation requirements *all* regulations that “apply equally to all property subject to the agency's jurisdiction,” not just the ones listed; and if “apply equally” is interpreted to mean treating similarly-situated property equally, then cities and town may still be able to apply equally post-1996 structural standards in building or fire codes that are not designed

to prevent harm from natural disasters. Of course, since the state building code *requires* cities to enforce these codes, they may have no choice but to enforce them.

### **Section 3 – Compensation and Waiver**

**Q1: When does the compensation requirement in section 3 apply? What does it mean for a city or town to “decide to enforce or apply” a regulation?**

**A:** Compensation is required under section 3 of I-933 if an agency “decides to enforce or apply” a regulation that would result in damaging the use or value of private property. If the agency “chooses not to take action,” it is not liable for compensation. This language appears to give agencies the option to “waive,” or not apply, the offending regulation and thereby avoid compensation. However, unlike Oregon's Measure 37, which clearly provides agencies with authority to waive laws (no compensation has been paid in Oregon on any claim to date), I-933 is ambiguous as to whether it provides waiver authority or whether it simply acknowledges that an agency may already have waiver authority in the laws it administers.

**Q2: Would compensation be required under section 3 whether or not a development permit is being sought for a specific piece of property?**

**A:** Yes, if the city or town is affirmatively choosing to “enforce or apply” the law. Section 3's compensation requirement is triggered if an agency “decides to enforce or apply” an offending regulation. If a property owner does not apply for a permit, and the agency does not seek to enforce the law, the compensation requirement is not triggered.

**Q3: When would the state or other agencies be liable for compensation for regulations applicable in cities?**

**A:** If the regulation is purely local, that is, it is not adopted pursuant to state statute or regulation, the state or state agencies would likely not be liable for compensation. What is not clear, however, is whether the state bears some responsibility for compensation if the local law is adopted pursuant to a state law requirement.

For example, many cities and towns are required to adopt and enforce plans and regulations under the Shorelines Management Act (SMA). Those plans and regulations must be reviewed and approved by the Department of Ecology prior to local implementation. GMA plans and regulations are required at the local level, but aren't reviewed and approved by the state. Whether those differences are significant enough to make a case for a finding of an agency relationship is unknown.

**Q4: What liability might a city incur if it decides to waive (not enforce) a regulation mandated by the state or federal governments in order to avoid compensation?**

**A:** Good question! Again, we are not sure.

**Q5: What liability might a city incur if it waives a regulation and the activity resulting from that waiver damages adjoining property?**

**A:** This gets into areas of law dealing with negligence. It isn't clear how this would sort out and it likely depends on how courts ultimately interpret the so-called “pay or waive” provisions of I-933, should it be enacted.

**Q6: If needed, how is the amount of compensation determined?**

Section 2(2)(d) of I-993 defines “compensation” as “remuneration equal to the amount the fair market value of the affected property has been decreased by the application or enforcement of the ordinance, regulation, or rule.” Therefore, governments will have to pay for the decrease in fair market value caused by the regulation. It also includes attorneys' fees reasonably incurred by the property owner in seeking to enforce I-933. How one determines whether, and to what extent, a land use regulation decreases fair market value is a complex matter.

Further, section 2(2)(d) states that to the extent any portion of the property is required to be left in its natural state or without beneficial use by its owner, the amount of compensation due would be the fair market value of the portion of property required to be left in its natural state.

**Section 5 – GMA AMENDMENTS****Q1: Section 5 is the only part of I-933 that specifically amends the Growth Management Act. What does this section mean and how does it differ from section 2(2)(b)(i) (requiring compensation for post-January 1, 1996 regulations)?**

**A:** Section 5 of I-933 prohibits the adoption of any new GMA development regulations that prohibit uses that legally existed prior to the adoption of the regulation. Section 5 differs from section 2(2)(b)(i) in that it does not allow a local government to adopt such a regulation and then pay to apply it. Rather, it prohibits the adoption of any new regulation that prohibits an existing, legal use.

**Q2: Does section 5 prohibit GMA cities or towns from making a use nonconforming-allowing its continuation but subjecting it to nonconforming use rules? If not, are legally existing uses then legal in perpetuity?**

**A:** I-933 appears to prevent the creation of nonconforming uses. It prohibits changes to GMA regulations that would prohibit existing, legal uses. Since a nonconforming use is only created by virtue of regulations that otherwise prohibit that use, section 5 seems to limit a GMA city or town from creating any new nonconforming uses. Current legal uses would be legal in perpetuity.

**General Questions****Q: Does I-933 affect a city's eminent domain authority?**

No. Although Section 1, the purpose and intent section, discusses the power of eminent domain, the operative sections do not mention eminent domain authority. Curiously and despite this fact, the proponent's web site identifies three eminent domain actions (one by the state, one by a city, and one by the Seattle Monorail Authority) as the first three examples of “excessive regulations” that have damaged property.

Note that the Washington State Constitution does not authorize condemnation of private property for economic development, as was determined by the U.S. Supreme Court in *Kelo v. New London* to be authorized in certain circumstances under the federal constitution. The Kelo decision has been widely criticized by property rights organizations.

**In closing...**

As more information becomes available about I-933 – including how individual cities or others are interpreting its provisions, AWC will provide updates to cities and towns through our regularly scheduled publications and on our website.

If you have questions or comments on this topic, please feel free to contact AWC's Dave Williams at either (360) 753-4137 ext. 142 or (e-mail) [davew@awcnet.org](mailto:davew@awcnet.org).

5/26/06.

## Initiative 917 (I-917): Limiting Motor Vehicle Fuel Charges<sup>1</sup>

*Editor's Note: This Fact Sheet is reproduced with the permission of the Association of Washington Cities. As we are getting ready to go to press, we are hearing that Tim Eyman submitted about 35,000 fewer signatures than the 300,000 originally announced. It is possible that this initiative will not be on the November ballot as previously thought.*

### Background

#### State

State Transportation is funded through a combination of gas taxes that are exclusively dedicated to roads, and a combination of fees and taxes that can be used for roads and “non-highway” purposes such as transit investments, safe routes to schools, passenger only ferries, and state patrol purposes. Since year 2000, the Legislature has authorized a variety of fees and taxes related to transportation. Most notably is a vehicle sales tax increase in 2003, and a new vehicle weight fee in 2005. All of these fees and taxes, in conjunction with the 2003 and 2005 gas tax increases, comprise current and future transportation investments for the state. This includes the “Nickel Package” of 2003 and the 2005 “Transportation Partnership Package” totaling over \$12.6 billion.

#### Local

Under current law, Sound Transit imposes a voter approved motor vehicle excise tax based on an assigned vehicle valuation. There is also additional, voter approved, motor vehicle fee authority granted to the Regional Transportation Improvement District that comprises King, Pierce, and Snohomish County that has been established as the potential regional match to the state’s dedicated transportation investments in Puget Sound (such as SR 520 and the Alaska Way Viaduct). A voter approved, motor vehicle fee option for Transportation Benefit Districts is also currently authorized.

### Initiative 917 – Limiting Motor Vehicle Charges

The “SaveOur30Tabs.com” organization has filed Initiative 917 (please see <http://www.secstate.wa.gov/elections/initiatives/text/i917.pdf> for a copy of this initiative).

Initiative 917 would repeal the fee portion of this package as well as reduce other local revenues and funding options, placing major transportation improvements at risk, including: the Alaskas Way Viaduct, SR520, Sound Transit, and the Regional Transportation Investment District (RTID). Initiative 917 specifically:

- Reduces license tab fees to \$30 per year for vehicles weighing 20,000 pounds or less.
- Repeals or reduces a number of fees including truck fees, vehicle weight fees & license plate fees.
- Removes a portion of the motor vehicle sales tax.
- Changes the vehicle valuation method for tax and fee purposes from manufacturer’s suggested retail price to a depreciation schedule based on purchase price.
- Repeals select local and RTID motor vehicle taxes and fees authorized for voter approval.
- Retires several outstanding bonds that have pledged the motor vehicle excise tax.

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<sup>1</sup>The following information is offered for informational purposes only. It is not intended as an expression of support or opposition to the initiative.

## Budget Suggestions for 2007

Projected revenue losses would be as follows:

Estimated Loss in Revenue (\$M)	2005-07	2007-09	2009-11	2011-13	2013-15	2015-17	2017-19	2019-21	Total
Group 1 Vehicles (\$30)	(4.79)	(16.73)	(17.54)	(18.39)	(19.28)	(20.21)	(21.19)	(22.22)	<b>(140.34)</b>
Group 2 Vehicles (CLF)	(16.80)	(83.96)	(87.57)	(89.89)	(92.18)	(94.47)	(96.76)	(99.06)	<b>(660.69)</b>
Passenger Vehicle Weight Fees	(41.34)	(112.06)	(117.45)	(121.20)	(124.97)	(128.76)	(132.62)	(136.53)	<b>(914.95)</b>
Motor Home Weight Fees	(3.98)	(12.46)	(13.02)	(13.62)	(14.24)	(14.88)	(15.56)	(16.27)	<b>(104.03)</b>
Plate Reflectivity	(2.63)	(8.98)	(8.89)	(9.34)	(9.85)	(9.82)	(10.00)	(10.39)	<b>(69.90)</b>
Plate Replacement Fees	(8.98)	(26.99)	(25.61)	(27.99)	(30.64)	(29.96)	(30.49)	(32.25)	<b>(212.91)</b>
Retail Sales tax	(21.61)	(77.59)	(82.73)	(87.85)	(91.38)	(98.06)	(99.20)	(103.93)	<b>(662.35)</b>
Motor Vehicle Filing Fees	(0.02)	(0.07)	(0.07)	(0.07)	(0.07)	(0.08)	(0.08)	(0.08)	<b>(0.53)</b>
Plate Number Retention Fees	(0.25)	(0.84)	(0.84)	(0.84)	(0.84)	(0.84)	(0.84)	(0.84)	(6.16)
<b>Total</b>	<b>(100.40)</b>	<b>(339.68)</b>	<b>(353.73)</b>	<b>(369.19)</b>	<b>(383.45)</b>	<b>(397.08)</b>	<b>(406.74)</b>	<b>(421.57)</b>	<b>(2771.85)</b>

Source: OFM Preliminary Estimate of Impacts – June 27, 2006

### What Is AWC's Role?

AWC's role will be to provide its members educational materials that can be shared with elected officials, staff and the community. We encourage you to use the information on our website to educate your constituents about the consequences the initiative(s) may have on your transportation needs. AWC's staff is also available to help you evaluate the issue and its impacts on your city.

Should you have any questions, please contact Ashley Probart at [ashleyp@awcnet.org](mailto:ashleyp@awcnet.org) or Sheri Sawyer at [sheri@awcnet.org](mailto:sheri@awcnet.org).

### For More Information

Further information and copies of initiatives are available on the Secretary of State's website: [www.secstate.wa.gov/elections/initiatives/people.aspx](http://www.secstate.wa.gov/elections/initiatives/people.aspx)

### Statement of Subject

Initiative Measure No. 917 concerns limiting motor vehicle fuel charges.

## **Concise Description**

This measure would limit motor vehicle registration charges to \$30 per year for vehicles weighing less than 22,000 pounds, and would repeal certain fees and charges exceeding the limit. Replacement and reflectorized plate fees would be reduced. A new valuation schedule based on purchase price would be used in calculating motor vehicle taxes and fees. Regional transit authorities would be required to retire or defease outstanding bonds pledging motor vehicle taxes as security for repayment.

## **Public Disclosure Commission**

Two committees have filed with the PDC in support or opposition to the initiative.

“Keep WA Rolling”

P.O. Box 2505, Seattle, WA 98111

*www.keepwashingtonrolling.org*

“SaveOur30Tabs.com”

P.O. Box 18250 Spokane, WA 99228

*www.SaveOur30Tabs.com*

## I-747 Declared Unconstitutional

On June 13, 2006, Judge Mary Roberts ruled in King County Superior Court that Initiative 747, passed in November 2001, was unconstitutional. That initiative, as written, told voters that the amount that taxing jurisdictions could increase their property tax levy without a vote of the people would fall from two percent to one percent, if passed. However, the two percent limit from the passage of Initiative 722 (which reduced the increase in the levy limit from six to two percent) had been declared unconstitutional before Initiative 747 went to the voters.

Judge Roberts ruled that the voters in November 2001 were misled.

When I-747 went to the voters on November 6, 2001, the voters were incorrectly led to believe they were voting to amend I-722. They were incorrectly led to believe they were voting on a change in the tax increase cap from two percent to one percent. Instead, they were voting on a change from six percent to one percent. The voters were misled as to the nature and content of the law to be amended, and the effect of the amendment upon it. The constitution forbids this.

She also enjoined the state from enforcing any of the provisions of I-747, which means the law is back to what was prior to November 2001. However, local jurisdictions should use caution in taking any action in reliance on the lower court decision.

Since the time of this ruling, Attorney General Rob McKenna has said that the state will be appealing the ruling to the Washington State Supreme Court. He has also stated the he will seek a “stay,” which means that if it is granted, the maximum levy increase would remain at one percent – the I-747 limit – until the supreme court has ruled.

The governor and various legislators have also spoken out since the ruling came down. They will be looking at the “limit factor” during the 2007 legislative session and there could be legislation that would result in it being something different than six percent or one percent.

*Q: What does this mean for our levy of taxes for 2007?*

A: If a stay is granted or if there is a Supreme Court ruling by November 30, 2006, reversing the lower court decision, the maximum allowable increase will be the amount allowed by I-747 – one percent.

Assuming that there is no court decision by November 30, 2006 and no stay granted for the King County ruling, the levy increase limits in effect will be six percent for jurisdictions with a population under 10,000.

For jurisdictions with a population of 10,000 or more, the allowed increase will be the lesser of six percent or the increase in the implicit price deflator for personal consumption expenditures (IPD) for July as reported in the September issue of the *Survey of Current Business*. The lesser amount will surely be the IPD, given the information we have on it so far. (See page 15.) Those jurisdictions, however, have the opportunity to pass an ordinance or resolution making a finding of “substantial need” that would allow them to go to six percent.

Note, however, that if a supreme court decision after November 30, 2006 reverses the lower court ruling and finds that I-747 is constitutional or if the legislature in 2007 amends RCW 84.55.005 to specify some “limit factor” less than six percent, any jurisdiction that raised its levy by more than the new allowable amount may

have to refund the difference and also bear the costs of making the refund. Local governments should also be aware that any actions this year may have political consequences or impact future legislation and possible initiatives.

*Q: I have heard that the Department of Revenue says we may be able to levy banked capacity we missed out on because of the one percent limit of I-776 in past years? Is that true?*

Yes, in the June 2006 issue of *Property Tax Review*,<sup>1</sup> Peri Maxi, the retiring assistant director of the Property Tax Division, wrote:

A preliminary legal analysis suggests that local taxing districts may be able to increase their tax levies by up to six percent in 2007, plus a certain amount of “banked capacity” that would be the difference between the 1 percent increase in taxes they levied under I-747 and what they could have levied under Referendum 47. For smaller districts this would be the difference between 1 percent and 6 percent, but for districts with populations of 10,000 or more, it would be the difference between 1 percent and the Implicit Price Deflator (IPD) a measure of inflation that averaged about 2 percent from 2002 through 2006.

From what we have heard, King County is presently calculating what the banked capacity would have been. We don't know about other counties. But, the same admonition given above holds. If a jurisdiction does a property tax levy for 2007 using banked capacity resulting from the recalculation, it still might have to refund the money. Banked capacity from years preceding the passage of I-747 or from legislative body decisions since its passage to increase levies by less than one percent are not affected by the current events.

*Q: Can we do something to bank capacity for 2007?*

A: We have been told by the Department of Revenue (DOR) that the following will happen if there has been no supreme court ruling reversing the superior court decision and/or if no stay of the superior court ruling has been granted by November 30, 2006.

If your jurisdiction has a population of less than 10,000, you will automatically have the difference between what you levy (one percent is safest) and six percent “banked” if you have complied with the requirement in RCW 84.55.120 to pass a resolution or ordinance stating your levy increase over the prior year in dollar and percentage amounts. (Of course, this increase must not push your tax rate over the maximum allowed.) This is nothing new. You have been required to pass this resolution this since the passage of Referendum 47 in 1997.

If your population is 10,000 or more, you should pass a resolution or ordinance making a finding of “future substantial need” for the difference between what you choose to levy (one percent is safest) and six percent, assuming that this does not require an increase in your tax rate above the statutory maximum. This resolution or ordinance would be in addition to your property tax levy ordinance and your resolution or ordinance to be in compliance with RCW 84.55.120, stating your levy increase in percentage or dollar amounts.

This would put you in a “wait and see” position. You would not be passing a levy for 2007 that could be reduced by a court ruling or legislative action and require you to amend your budget. But, you would be reserving this levy capacity for a future year if it turns out that it is possible to do that. This is the safest and most conservative thing to do.

*Q: We have been thinking of doing a levy lid lift. How does this ruling on I-747 affect that?*

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<sup>1</sup>[http://dor.wa.gov/Docs/Pubs/Prop\\_Tax/NewsletterSummer2006.pdf](http://dor.wa.gov/Docs/Pubs/Prop_Tax/NewsletterSummer2006.pdf)

While there is a scenario that might make such a lid lift unnecessary, we would suggest you continue with your plans. There is nothing in the ruling on I-747 that affects levy lid lifts.

# Taxing Matters

## Telephone Excise Tax on Long Distance Services No Longer Being Collected

On May 25, the Internal Revenue Service announced that it would stop collection of the federal excise tax of three percent on long distance telephone service, effective immediately. This announcement was widely publicized in the news media and posted on the Washington Finance Officers Association Web site. And, we began to get calls. "I thought cities were already exempt from this tax." That is true. All local governments have been exempt from federal excise taxes on both long distance **and** local telephone services (the IRS uses the term "communications services") for we don't know how many years. The exemption is found in Internal Revenue Code Section 4253(i).

[http://www.law.cornell.edu/uscode/html/uscode26/usc\\_sec\\_26\\_00004253----000-.html](http://www.law.cornell.edu/uscode/html/uscode26/usc_sec_26_00004253----000-.html).

However, there is some benefit to cities and counties from the IRS decision. Since no one will be required to pay this tax in the future, cities and counties will not longer have to file for an exemption from the tax on long distance services. In the past, under IRC 4253(k)(1), local governments had to certify to each provider of long distance telephone services that it was entitled to the exemption.

A local government still needs to provide a certificate to its service provider of **local** telephone services to qualify for the exemption on that service. Most service providers have their own certificate, which they can provide you if you have not applied for this tax exemption in the past. Or, you can use the sample form from the IRS at the following link. [http://www.irs.gov/pub/irs-tege/telephone\\_excise\\_tax.pdf](http://www.irs.gov/pub/irs-tege/telephone_excise_tax.pdf).

If your jurisdiction has been paying the tax on long distance services because you did not know you could apply for an exemption, you can apply for a refund. Clark Fletcher, the Federal/State/Local Government Specialist in our state, says that the form to use is Form 8849. And, it appears that Schedule 6 is the schedule to use. This schedule was not written with the long distance telephone tax in mind. But, it would appear that you can just enter "Tax on long distance communications services under Section 4253(i)" on line 1. We believe that the period of the refund is normally three years. But, since the IRS is going to let taxpayers claim a refund on their 2006 income tax returns for taxes they paid on services billed to them after February 28, 2003, cities and counties should be able to go back that far also. Fill out the form and schedule, attach copies of your phone bills, with the tax circled, and see what happens.

Similarly, if you have not previously applied for an exemption from the tax on **local** telephone services, put in a refund request on Schedule 6 of Form 8849 for those amounts for the same time period. If the limit is three years, the IRS will let you know.

To get a copy of Form 8849 and Schedule 6, go to [www.irs.gov](http://www.irs.gov), click on "More Forms and Publications" on the middle left and you will be sent to a page where you can scroll down to retrieve the form.

## New Construction Sales Tax

Toni Nelson, Small Cities Specialist, State Auditor's Office, has told us that a number of small cities are receiving significant (compared to the size of their budgets) amounts of sales tax revenues from new construction. This may well be a new experience for the finance staffs, mayors, and councils.

Be aware that this is “one-time” money. That does not mean you will not get additional revenue from new construction next year or the following year, but it does mean that, at some point, new construction will stop and your sales tax revenues will drop back to what is a ”normal” amount.

Beware of the temptation to spend this “one-time” money on ongoing expenditures. That is hard to do, especially if, for example, your city has needed more police officers for some time. If you use one-time money to hire them, you will have to lay them off when the new construction stops.

A better use of these revenues might be for one-time expenditures - a new backhoe or computer system. Or, use the monies to refill the reserve fund that you have drawn down since the passage of I-695. Another idea would be to set the funds aside to help pay for the big increases that are on the horizon for PERS 1. (See the article on page 31.)