

BUDGET SUGGESTIONS

For 2008



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Budget Suggestions For 2008

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of Washington**

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Introduction

Here is your copy of *Budget Suggestions for 2008*. 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 2007 legislation that may affect your budget.
- CPI and state-shared revenue forecasts, including a look ahead to 2009.
- An article on the Local Infrastructure Financing Tool by Stacey Crawshaw-Lewis and Deanna Gregory.
- An article on internal controls by Gayla Gjertsen.
- An update on pension rates.
- Two articles on streamlined sales tax mitigation.
- An update on Initiative 747 and a description of Initiative 960.

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. Paul Sullivan, Erica Zwick, Connie Elliott, Carol Tobin, and Peter Breen proofed and/or edited part of the document. We hope this material will assist you as you go through the budget process and into 2008.

Richard Yukubousky
Executive Director

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Budget Calendar for Preparation of 2008 Budgets

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

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

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

Major Steps in Budget Preparation	State Law Time Limitations	Actual 2007 Date
1. Request by city clerk to all department heads and those in charge of municipal offices to prepare detailed estimates of revenues and expenditures for next fiscal year (calendar year).	By second Monday in September. ^{1,2}	September 10
2. Estimates are to be filed with the city clerk.	By fourth Monday in September. ²	September 24
3. Estimates are presented to the chief administrative officer (CAO) for modifications, revisions or additions. City Clerk must submit to CAO proposed preliminary budget setting forth the complete financial program, showing expenditures requested by each department and sources of revenue by which each such program is proposed to be financed.	On or before the first business day in the third month prior to beginning of the fiscal year.	October 1
4. CAO provides the legislative body with current information on estimates of revenues from all sources as adopted in the budget for the current year. CAO also provides the legislative body with the clerk's proposed preliminary budget setting forth the complete financial program, showing expenditures requested by each department and sources of revenue by which each such program is proposed to be financed.	No later than the first Monday in October.	October 1
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 2008

Major Steps in Budget Preparation	State Law Time Limitations	Actual 2007 Date
6. CAO prepares preliminary budget and budget message ³ and files with the city legislative body and city clerk.	At least 60 days before the ensuing fiscal year.	November 2
7. Clerk publishes notice of filing of preliminary budget with city clerk and publishes notice of public hearing on final budget once a week for two consecutive weeks.	No later than the first two weeks in November.	November 2 through November 15
8. Setting property tax levies (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 2 through 30 (suggested)
10. Copies of proposed (preliminary) budget made available to the public.	No later than six weeks before January 1.	November 16
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 3
12. Adoption of budget for 2008.	Following the public hearing and prior to beginning of the ensuing fiscal year.	Day after last day of your public hearing through December 31.
13. Copies of final budget to be transmitted to the State Auditor's Office and to MRSC.		After adoption
<p>¹RCW 35.33.031 actually provides "on or before the second Monday of the fourth month," etc. Therefore, pursuant to the state budget law, that step (and certain others) could be taken before the dates listed here. See also, RCW 35A.33.030.</p>		
<p>²Or at such other time as the city or town may provide by ordinance or charter (RCW 35.33.031 and .051 and 35A.33.030 and .050).</p>		
<p>³RCW 35.33.031 and RCW 35A.33.055 specify that the budget message must contain the following:</p> <ol style="list-style-type: none"> 1. An explanation of the budget document; 2. An outline of the recommended financial policies and programs of the city for the ensuing fiscal year; 3. A statement of the relation of the recommended appropriation to such policies and programs; 4. A statement of the reason for salient changes from the previous year in appropriation and revenue items; 5. An explanation for any recommended major changes in financial policy. 		

Biennial Budgets

All cities and towns that wish to begin budgeting on a biennial basis must pass an ordinance to that effect six months prior to the beginning of the fiscal year. The first year of a biennial budget must be an odd-numbered year. **The next year in which you can start a biennial budget will be 2008. If you are planning to do a biennial budget for 2009-2010, remember that you must pass your ordinance by June 30, 2008.** Next year's issue of *Budget Suggestions* will not come out until late July, so a reminder will not do much good then.

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 2008 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 2007 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 9
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 13
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 4
4. Preliminary budget hearing by board of commissioners. RCW 36.40.070.	First Monday in October	October 1
5. Alternative preliminary budget hearing by board of commissioners. RCW 36.40.071.	First Monday in December	December 3
6. Final budget adoption by board of commissioners. RCW 36.40.080.	Upon conclusion of budget hearing	Practically, December 31

Biennial Budgets (RCW 36.40.250)

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

2007 Legislation That May Affect Your Budget

Streamlined Sales Tax Bill With Mitigation Passes (SSB 5089, Ch. 6, Laws of 2007)

In recent years, the legislature has adopted a number of the provisions necessary for our state to conform with the Streamlined Sales Tax Agreement (SSTA). States that adopt this agreement receive payments from firms that have volunteered to collect and remit sales taxes on mail-order and Internet sales (“remote” sales) even though they are not required by law to do so.

A real sticking point for our state was the requirement that sales tax be allocated on the basis of the destination of the sale rather than where the sales are made. Washington is one of the few states that had “origin-based” sourcing. Making this change would result in gains in sales tax receipts for some local governments and losses for others.

This bill, which adopts destination-based sourcing, provides for full mitigation for the jurisdictions that will lose sales taxes. New sales taxes that the state government will receive from voluntary payments because the state will be a member of the SSTA will be used to compensate the local governments that experience negative net impacts. Any voluntary payments that these same entities receive because of our membership in the SSTA will be credited against their losses. As the number of firms making voluntary payments to local governments increases over time, the state mitigation contribution to mitigation will decrease. See “Mitigation for Local Governments Affected by Streamlined Sales Tax Changes” and “Mitigation Plan,” on pages 42-46 for more information.

The bill also contains some assistance to help businesses comply with the new destination-based sourcing rules.

The effective date of this legislation is July 1, 2008.

Cities That Annex Territory Within a Fire or Library District Will Now Receive District-Levied Property Taxes Sooner; New Date Established for Setting City Boundaries for Levying Property Taxes (SB 5836, Ch. 285, Laws of 2007)

This bill provides that, when cities annex territory within a fire protection or library district, they will now begin receiving, as of the date of annexation, the district-levied property tax revenues that are not delinquent but have not yet been collected by those districts within the annexed territory.

The current situation that this legislation changes is that, when a city annexes territory within a fire protection or library district, it does not receive property tax revenues based on its own tax levy from that territory until the calendar year following the annexation, if the annexation is effective before June 1, or not until the start of the second calendar year following the annexation, if the annexation is effective after June 1. The effect of this situation is that, for a period of time, property annexed by a city that is within a fire protection and/or library district will be receiving services from the city while still paying property taxes to the district or districts.

The new legislation provides, as with county road taxes, that any fire or library district taxes on annexed property that were levied, but not collected and not delinquent, must be paid to the annexing city when collected, at times required by the county, but no less frequently than July 10 for collections through June 30th and January 10 for collections through December 31st following the annexation. Taxes that were delinquent but not collected on the date of annexation are to be paid to the districts. The annexing city is to notify the fire and/or library district, as well as the county assessor and treasurer, of the annexation at least 30 days prior to its effective date; the county treasurer is required to pay to the annexing city only those fire and library district taxes collected 30 or more days after receipt of the notice.

SB 5836 also provides that, if the annexed property is subject to an outstanding general obligation bond, the bonded indebtedness of the fire or library district remains an obligation of the taxable property annexed to the city.

Lastly, this legislation amends RCW 84.09.030 to change from March 1 to August 1 the date when, for purposes of the following year's property tax levies, the boundaries of cities and other taxing districts are set.

Property Tax Exemption for Some Multiple-Unit Housing Projects is Expanded and Revised (E2SHB 1910, Ch. 430, Laws of 2007)

Cities with a population of at least 30,000 (or the largest city in a county planning under the Growth Management Act (GMA) if there is no city with a population of at least 30,000) have been able to offer a 10-year property tax exemption on newly-built or rehabilitated multi-unit housing projects located in areas that have been targeted by the city. The exemption does not apply to the land or non-housing improvements.

This bill extends the exemption to cities with a population of at least 15,000 (or the largest city in a county planning under GMA if there is no city in the county with a population of at least 15,000) and any city in a county that is subject to the provisions of RCW 36.70A.215 (*i.e.*, cities in King, Snohomish, Pierce, Kitsap, Thurston, and Clark counties).

The general exemption is lowered from 10 to eight years. However, if the property owner commits to renting or selling at least 20 percent of the units as affordable housing to low or moderate income households, the units may be eligible for a 12-year exemption. "Low income" and "moderate income" are defined in section 3 of the bill, but cities are allowed to impose additional affordable housing conditions.

All cities that issue certificates of tax exemption must file a report with the Department of Community, Trade and Economic Development by December 31 of each year, beginning with 2007, which provides the following information:

- The number of tax exemption certificates granted;
- The total number and type of units produced or to be produced;
- The number and type of units produced or to be produced meeting affordable housing requirements;
- The actual development cost of each unit produced;
- The total monthly rent or total sale amount of each unit produced;
- The income of each renter household at the time of initial occupancy and the income of each initial purchaser of owner-occupied units at the time of purchase for each of the units receiving a tax exemption and a summary of these figures for the city; and
- The value of the tax exemption for each project receiving a tax exemption and the total value of tax exemptions granted.

Local Option Fees for Transportation Benefit Districts (ESHB 1858, Ch. 329, Laws of 2007)

This bill provides for new financing mechanisms for transportation benefit districts that include all the territory within the boundaries of the jurisdiction or jurisdictions establishing the district. The legislative body of cities or counties may impose the first \$20 (out of a maximum fee of \$100) of the vehicle fee without voter approval. Credit, however, must be given for any vehicle fee imposed by another district within its boundaries so that the combined fee does not exceed \$20. They also may impose transportation impact fees for commercial or industrial buildings in the district, but must provide a credit for any transportation impact fees imposed by a city or county under GMA or SEPA for a transportation improvement to be constructed by the district.

Counties may use this authority first. They have 180 days, beginning July 22, 2007, to impose these revenue options county-wide. To impose the \$20 vehicle fee, they must form an interlocal agreement with 60 percent of the cities representing 75 percent of the incorporated population. If such an agreement cannot be reached, the county may impose the fee only in the unincorporated area of the county.

In most counties, a district solely comprised of a city or cities may not impose these fees before January 19, 2008 unless the county passes a resolution declaring that it will not be imposing these fees. A city or cities in King, Pierce, and Snohomish counties may not impose these fees before May 22, 2008, unless the county has waived its authority to do so.

The projects must be identified in a state or regional transportation plan.

Note that the Association of Washington Cities and the Washington State Association of Counties are currently preparing two publications on transportation benefit districts. One is a question and answer paper; the other a “checklist.” Links to these publications will be provided on the AWC (www.awcnet.org) and WSAC (www.wacounties.org/wsac/) web sites when they are available.

Clarification Provided on Use of Lodging Tax for Tourism Promotion and Tourism-Related Capital Facilities (SSB 5647, Ch. 497, Laws of 2007)

This bill amends the definition of “tourism promotion” under RCW 67.28.080(6) to include operations to increase tourism and the operation of special events and festivals in addition to marketing of those events. It also amends the definition of “tourism-related facility” under RCW 67.28.010(7) to clarify that city and county lodging tax revenues may be used to support facilities owned by nonprofit organizations.

Cities and counties that use lodging tax revenues directly or indirectly through a convention and visitors bureau or destination marketing organization, for the marketing and operation of special events and festivals and to support the operation and capital expenditures of tourism-related facilities owned by nonprofit organizations, must submit an annual report to the Department of Community, Trade and Economic Development (CTED) beginning January 1, 2008. This report must include:

- The total revenue received under this chapter [67.28 RCW] for each year;
- The list of festivals, special events, or nonprofit 501(c)(3) or 501(c)(6) organizations that received funds under this chapter;
- The amount of revenue expended on each festival, special event, or tourism-related facility owned by a nonprofit 501(c)(3) or 501(c)(6) organization;

- The estimated number of tourists, persons traveling over fifty miles to the destination, persons remaining at the destination overnight, and lodging stays generated per festival, special event, or tourism-related facility owned by a nonprofit 501(c)(3) or 501(c)(6) organization;
- An estimated increase in sales and use tax revenues attributable to the special event, festival, or tourism-related facility owned by a nonprofit 501(c)(3) or 501(c)(6) organization; and
- Any other measurements the local government finds that demonstrate the impact of the increased tourism attributable to the festival, special event, or tourism-related facility owned by a nonprofit 501(c)(3) or 501(c)(6) organization.

The Joint Legislative Audit and Review Committee must make a report to the legislature and governor by September 1, 2012, analyzing the economic impact of the use of lodging taxes for the operation of special events and festivals and tourism-related facilities owned by nonprofit organizations. The amendments in this bill expire on June 30, 2013.

Eliminating Gain-Sharing and Providing Alternative Benefits¹ (EHB 2391, Ch. 491, Laws of 2007)

This bill eliminates the gain-sharing benefit for Plans 1 and 3 of the Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), and the School Employees' Retirement System (SRS) after one additional disbursement in 2008.

Because the gain-sharing benefit was so costly, elimination of gain-sharing after one additional disbursement was an AWC priority for the 2007 session. However, this bill provides additional benefits in exchange for the elimination of gain-sharing, wiping out most of the expected savings. The most significant – and most costly – benefit enhancement affects members of Plan 2 and 3 of PERS, SERS and TRS. Effective July 1, 2008 (September 1, 2008 for TRS and SERS), the bill provides a different early retirement option for members with 30 years of service, allowing them to retire with unreduced benefits at age 62.

Members with 30 years of service who are between 55 and 61 may also retire early with reduced early retirement reduction factors: 2% for a 61-year-old member, 5% for a 60-year-old member, and, for members between ages 55 and 59, an additional 3% per year for each year they are younger than 60. The improved early retirement reduction factors go into effect on July 1, 2008.

The bill also provides for an increase in the PERS Plan 1 Uniform COLA effective July 1, 2009, and includes other changes applicable to TRS and SERS only.

All of the benefit enhancements are contingent upon the repeal of gain-sharing. If the courts order reinstatement of gain-sharing benefits, the new benefits would be repealed (except for those who have already retired). The Washington Education Association has already filed suit challenging the repeal of gain-sharing – on the same day the Governor signed the bill. Obviously, it will take the courts some time to act.

Members who retire under the improved early retirement reduction factors are prohibited from drawing their retirement benefits during periods when they work in any compensated capacity for a retirement system employer. (Other retirees can be rehired into eligible positions and work for limited hours while still receiving their pensions.) This restriction ends when the employee reaches age 65.

¹The description of the provisions of this bill comes from the *AWC Legislation Bulletin-Final Report, 2007 Regular Session*, pp. 47-48.

Small Works Roster (SHB 1328, Ch. 210, Laws of 2007)

A state agency or authorized local government may use the limited public works process to solicit and award small works roster contracts to small businesses that are registered contractors with gross revenues under \$1 million annually as reported on their federal tax return.

A state agency or authorized local government may adopt additional procedures to encourage small businesses that are registered contractors with gross revenues under \$250,000 annually as reported on their federal tax returns to submit quotations or bids on small works roster contracts.

The alternative administration of the prevailing wage contract requirement that applies to public works projects of \$2,500 or less applies to public works projects under \$35,000 that use the limited public works process found in RCW 39.04.155 (3).

The reporting threshold to the Department of Revenue under RCW 60.28.051 is raised from \$20,000 to \$35,000. In RCW 38.08.010, the threshold for the contractor option for retainage has been raised to \$35,000 from \$25,000.

Alternative Public Works (2SHB 1506, Ch. 494, Laws of 2007)

Summary of Bill:

- Extends and expands the use of the design-build and general contractor/construction manager contracting procedures;
- Establishes a project review committee to approve and certify the use of design-build and general contractor/construction manager contracting procedures; and
- Requires data collection for evaluation of alternative contracting procedures.

The following table is from AWC Legislative Bulletin – Final Bulletin, 2007 Regular Session

Alternative Public Works Legislation Proposal (HB 1506)		
	Current Law	Substitute Bill Proposal
Eligibility	<ul style="list-style-type: none"> • Cities over 70,000 population, • Counties over 450,000 population, • University of Washington, Washington State University, Washington State Department of General Administration, • PUDs, ports, schools, hospitals, subject to certain restrictions 	<ul style="list-style-type: none"> • Public owners that have performed 1 or more GC-CM projects may go before a review committee seeking a 3 year certification to use either GC-CM or DB, or • All public owners can seek project specific authority from the review committee

General Contractor-Construction Manager	Projects over \$10 million	No threshold
Design Build	Projects over \$10 million	Projects over \$10 million, except for parking garages
Design Build Operate Maintain	No provisions	Except for utility projects, no projects involving operations and maintenance services longer than 3 years.
Collective Bargaining	No provisions	No public body can disqualify/rate a proposal for GC-CM services on the basis of terms of a collective bargaining agreement
Maximum Allowable Construction Cost	70%	90%

Responsible Bidder Criteria (SHB 2010, Ch. 133, Laws of 2007)

Responsible bidder is defined for purposes of public works contracts. In order to be considered a responsible bidder, the bidder must have a certificate of registration at the time of bid submittal; a current state unified business identifier number; and if applicable, industrial insurance coverage for the bidder’s employees working in Washington, an Employment Security Department number, and a state excise tax registration number. In addition, the bidder must not be disqualified from bidding on any public works contracts. A state or municipality may adopt relevant supplemental criteria for determining bidder responsibility that is applicable to a particular project. Any supplemental criteria must be included in the invitation to bid or the bidding documents. At the request of a potential bidder, and after evaluation by the state or municipality, the bid criteria may be modified. If a change in criteria results, an addendum to the bidding documents must be issued identifying the new criteria.

If the state or municipality determines that a bidder is not responsible, it must provide the bidder the reasons, in writing, for that determination, and must provide the bidder an opportunity to provide additional information. If the final determination is that the bidder is not responsible, the state or municipality cannot execute a contract with another bidder until two business days have elapsed since the final determination was received by the bidder.

Public works contractors and subcontractors must verify that any subcontractors they directly hire meet the responsibility criteria for the project at the time of award. Verification that a subcontractor have an electrical contractor license or an elevator contractor license, if required by statute, must be included in the verification process.

The Capital Projects Advisory Review Board is to develop guidelines to assist the state and municipalities in developing supplemental responsibility criteria. For purposes of public works contracts, "award" is defined as the formal decision by the state or municipality notifying a responsible bidder with the lowest responsive bid of the state or municipality’s acceptance of the bid and intent to enter into a contract with the bidder.

County Bid Limit Increased (SB 6075, Ch. 80, Laws of 2007)

The limit for purchasing material, supplies, and equipment without a bid has been increased from \$2,500 to \$5,000.

Amendments Made to Levy Lid Lift and County 0.3 Percent Optional Sales Tax Statutes (ESBH 5498, Ch. 380, Laws of 2007)

Prior to the passage of this bill, both the county 0.3 percent optional sales tax statute under RCW 82.14.450, and RCW 84.55.050(3)(b), authorizing a six-year levy lid lift that may be increased in consecutive years by a “limit factor,” had non-supplanting provisions. This bill amends these statutes to exclude “lost federal funds, lost or expired state grants or loans, extraordinary events not likely to reoccur, changes in contract provisions beyond the control of the county or city receiving the services, and major nonrecurring capital expenditures” from the definition of “existing funds” for the purposes of measuring non-supplanting. (Note that the authority for the six-year levy lid lift is now found in section 2 of the statute.)

This bill also extends the ability to do a six-year levy lid lift to special districts, in addition to cities and towns, subject to statutory dollar limitations.

Local Infrastructure Finance Tool (LIFT) Statutes Amended (2SHB 1277, Ch. 229, Laws of 2007)

The major change provided by this bill increases the limit of the state contribution to LIFT projects from \$5 million to \$7.5 million per year. For a description and analysis of this financing mechanism, see the article on page 33.

Code City and Non-Code Cities Now Have Same Interest Allocation Options (HB 2161, Ch. 64, Laws of 2007)

For a number of years, non-code cities have been able, upon passage of an ordinance, to apportion some investment earnings from funds commingled for investment purposes to the general fund rather than the participating funds unless otherwise restricted by law. (RCW 35.39.034). This bill amends RCW 35A.40.050 to provide the same provision for code cities.

Note that the BARS Manual (Vol. 1, Pt. 3, Ch. 12, P. 46) provides a matrix of revenue sources and whether interest on those sources may be allocated to the general fund. In addition, for utility funds, bond covenants or other provisions may require that the interest be allocated to the utility fund. If you have questions, check with your city attorney or bond counsel.

Medical Insurance for City Officials (SB 5525, Ch. 42, Laws of 2007)

Article 11, sec. 8, of the Washington State Constitution prohibits elected officials who set their own compensation from receiving increases (or decreases) in compensation during their terms of office. For certain officials, the cost of a health care policy has not been considered “additional compensation.” See RCW 41.04.190.

However, since city elected officials are not included within that language in RCW.41.04.190, cities have faced the problem of what to do when the cost of the existing health care policy provided to their elected officials increases. Is this “additional compensation” even when the health care benefit has not changed?

Passing SB 5525 solves this problem. City elected officials are added to other officials in RCW 41.04.190 for whom the cost of a health care policy is not considered “additional compensation.”

Rural County Optional Sales Tax Rate Increased (E2SSB 5557, Ch. 478, Laws of 2007)

Counties with a population density of less than 100 persons per square miles or smaller than 225 square miles have been able to levy a sales tax of 0.08 percent as a credit against the state sales tax. The funds must be used for public facilities serving economic development purposes. (See HB 1543, Ch. 250, Laws of 2007, however, which expands the uses to include financing of economic development offices.)

Under this bill the allowed tax rate increases to 0.09 percent. The bill also explicitly states that no new projects for criminal justice facilities may be funded.

The required report to the state auditor is now due no later than 150 days after the close of the fiscal year (rather than by October 1). The report must list expenditures during the fiscal year on projects begun in a previous year in addition to new projects begun during the fiscal year.

Using Rural County Optional Sales Tax for Economic Development Offices (HB 1543, Ch. 250, Laws of 2007)

To the permitted uses of financing public facilities serving economic development purposes listed in RCW 82.14.370(3), financing personnel in economic development offices is added.

Sales and Use Tax Exemption for Repairs of Farm Machinery and Equipment (EHB 1902, Ch. 332, Laws of 2007)

In 2006, HB 2457, Ch. 172, Laws of 2006, provided for a sales and use tax exemption for some replacement parts for farm machinery and equipment for farmers with gross sales of \$10,000 or more per year. This bill adds “farm vehicles” to the definition of “qualifying farm machinery or equipment.” It also exempts labor and services to install the replacement parts and to repair “qualifying farm machinery and equipment.”

The local government fiscal impact of this extension of the exemption will cost cities and counties approximately \$ 1 million per year.

Recording Fee Surcharge for Affordable Housing (E2SHB 1359, Ch. 427, Laws of 2007)

RCW 36.22.178 and .179 provide for recording fee surcharges to be used for extremely low-income housing and homeless housing and assistance. This bill renames and reallocates the funds from these existing surcharges.

In addition, a new surcharge of \$8 is established of which 90 percent will be used for county homeless housing programs and 10 percent for DCTED homeless housing assistance administration and programs.

City Population Threshold for State Highway Maintenance Increased (SB 5086, Ch. 84, Laws of 2007)

In cities with a population below a certain threshold, the state Department of Transportation is responsible for certain maintenance activities on city streets that are designated as part of the state highway system. When the population exceeds that threshold, the city must take over the maintenance within a three-year period. This bill increases the threshold from a population of 22,500 to 25,000.

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) 326-5818. A link to the most recent releases can be found at <http://www.bls.gov/ro9/pachist.htm>. Questions may be directed to BLSinfoSF@BLS.GOV or (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 16 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 2007 and 2008.

We have forecasts for the national inflation rates from the Philadelphia Federal Reserve Bank, which surveyed 53 economists; the Research Seminar in Quantitative Economics at the University of Michigan; the *Wall Street Journal*, which surveyed 60 economists (probably some of the same economists that the Philadelphia Federal Reserve surveyed); 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 annualized rate of growth in gross domestic product (GDP) for the first quarter of 2007 was 0.7 percent, the lowest in four years. Growth in the second quarter is forecast to rebound and be more in line with the 3.2 to 3.3 percent average we have experienced in the last two years. Consumer spending was up by 0.5 percent

over the prior month in both April and May despite the high gasoline prices. Businesses have begun to rebuild their inventories – a sign of optimism. Overall construction spending increased by a robust 0.9 percent in May compared to April in spite of a decline in residential construction. Strong global demand combined with a weak U.S. dollar has increased the demand for our exports.

Of course, whenever strong demand for U.S. goods and services is forecast, economists begin worrying about inflation. Overall productivity appears to be decreasing so increases in demand may be accompanied by cost increases that are higher than in the past. The Federal Reserve is concerned about “higher resource utilization,” which is “Fedspeak” for low unemployment. The June unemployment rate was 4.5 percent. The rate has been between 4.4 and 4.6 percent since September 2006, resulting in an upward pressure on wages.

One factor we have seen in recent years is the globalization of the economy. At first, it provided a check on domestic prices through the importation of low-priced Chinese and other foreign goods. Now, however, much of the excess capacity for goods production abroad has been absorbed and price pressures are getting more intense. Combine these higher foreign prices with a weak U.S. dollar and one gets higher prices for goods imported into the U.S. In addition, the growing industrialization and consumer demand in developing countries such as China are driving up global food and energy prices. An article¹ in *The Wall Street Journal* remarks that “food and energy prices are increasingly linked: In the U.S., government efforts to promote homegrown ethanol as an alternative to imported oil have driven up the price of corn, as well as the price of meat from animals that eat it.”

One might conclude, after this discussion of economists’ reasons for being concerned about inflation, that they would be forecasting an increase in the rate of inflation. That is not the case, however. On average, as shown in the graphs and charts on page 16, economists are forecasting lower rates of U.S. inflation in both 2007 and 2008.

The Seattle-Tacoma-Bremerton inflation rate is also expected to decline. Note that beginning in 2006, the Seattle rate rose above the national rate for the first time since 2002, reflecting the stronger local economy. The Washington State Forecast Council expects this relationship to continue until at least 2009.²

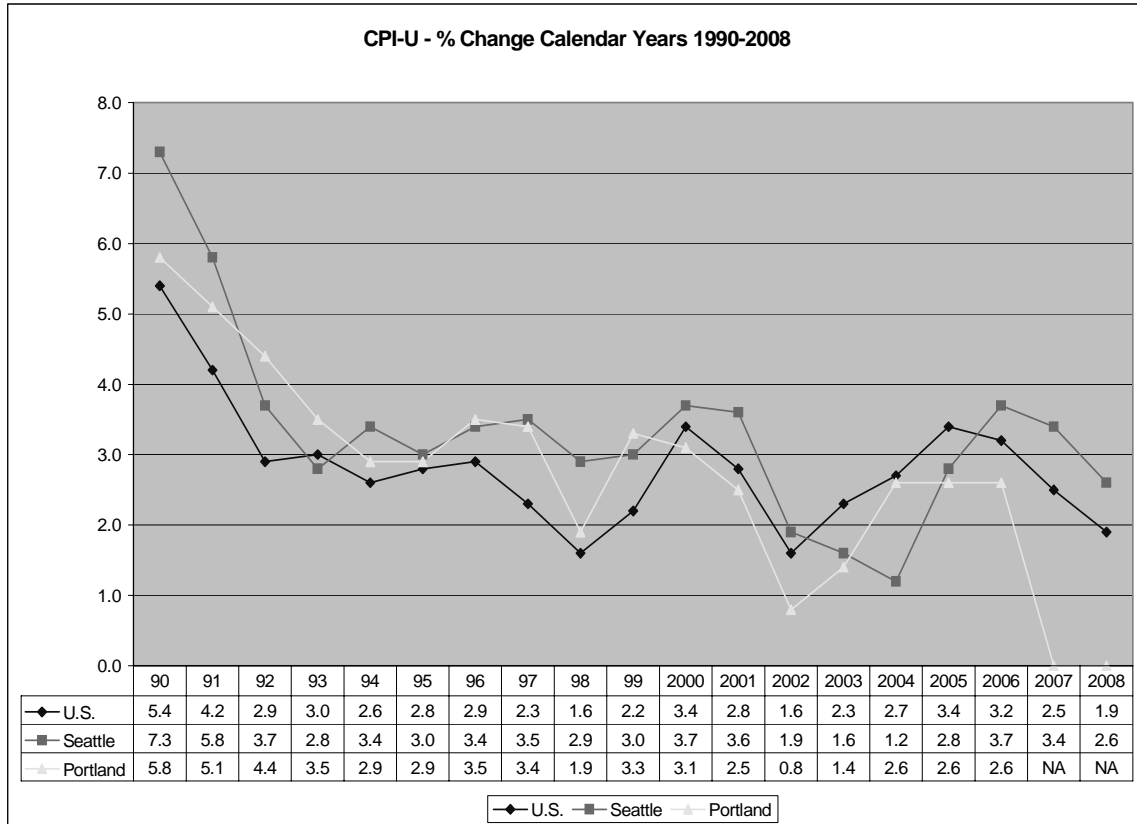
¹Mark Whitehouse, “Why an Expected Rebound in Growth Wouldn’t Be Without Risk,” *The Wall Street Journal*, 2 July 2007, p. A2. The article includes an interview with Seattle restaurateur, Tom Douglas.

Together with rising wages, the higher food and energy costs are putting pressure on all kinds of businesses to raise their own prices. Tom Douglas, who owns six restaurants in the Seattle area, says his gas bill at one location has more than doubled over the past three years. The price of the beef he buys is up 50% from a year ago, and the wages of workers such as line cooks have risen about 15% over the same period. As a result, he plans to increase menu prices this year, but not enough to keep his profit margin from falling to about 3.5%, from 5% last year.

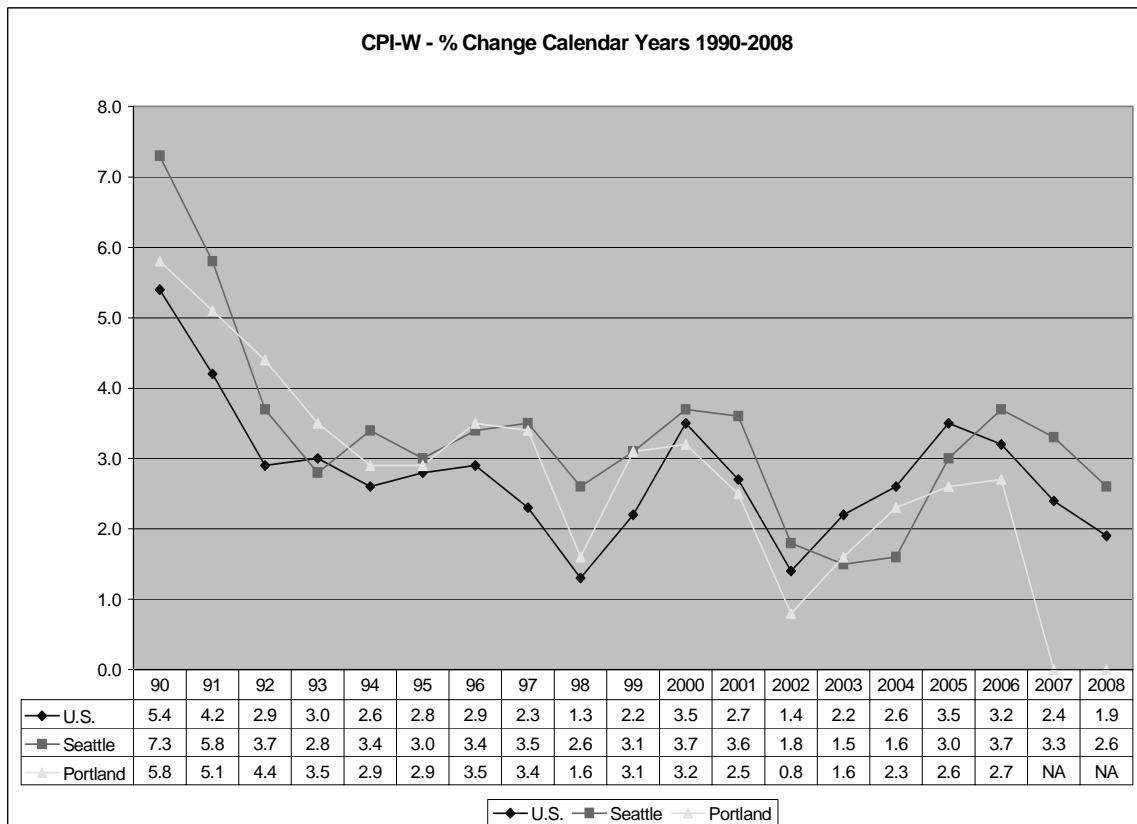
“At this point we’re trying to split the difference with the customer,” he says.

Mr. Douglas’s story illustrates a second reason economists worry about inflation: Businesses are having a harder time offsetting rising costs by squeezing more output out of each worker. In recent months, productivity growth has waned, in part because businesses have kept hiring at a brisk pace even as the economy has slowed.

²Washington State Economic and Revenue Forecast Council, *Economic and Revenue Forecast*, Olympia, WA, June 2007, pp. 12 and 136.



Figures for 2007-2008 are Estimates



Figures for 2007-2008 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)	

Budget Suggestions for 2008

		All Urban Consumers (CPI-U)			Urban Wage Earners & Clerical Workers (CPI-W)		
Year	Month	Seattle	Portland	U.S.	Seattle	Portland	U.S.
2003	January			181.7 (2.6%)			177.7 (2.6%)
	February	191.3 (2.0)		183.1 (3.0)	186.2 (2.0)		179.2 (3.2)
	March			184.2 (3.0)			180.3 (3.2)
	April	192.3 (1.9)		183.8 (2.2)	187.0 (1.9)		179.8 (2.3)
	May			183.5 (2.1)			179.4 (2.0)
	June	191.7 (1.2)		183.7 (2.1)	185.7 (0.9)		179.6 (2.1)
	First half '03	191.6 (1.8)	186.0 (1.4)		186.2 (1.7)	181.7 (1.7)	
	July			183.9 (2.1)			179.6 (2.0)
	August	194.4 (2.2)		184.6 (2.2)	188.2 (1.8)		180.3 (2.1)
	September			185.2 (2.3)			181.0 (2.3)
	October	193.7 (1.5)		185.0 (2.0)	187.8 (1.2)		180.7 (1.9)
	November			184.5 (1.8)			180.2 (1.6)
	December	191.0 (0.5)		184.3 (1.9)	185.3 (0.4)		179.9 (1.6)
	Second half '03	193.1 (1.5)	186.5 (1.4)		187.1 (1.2)	182.0 (1.5)	
ANNUAL AVE.	192.3 (1.6)	186.3 (1.4)	184.0 (2.3)	186.7 (1.5)	181.8 (1.6)	179.8 (2.2)	
2004	January			185.2 (1.9%)			180.9 (1.8%)
	February	193.5 (1.2)		186.2 (1.7)	187.8 (0.9)		181.9 (1.5)
	March			187.4 (1.7)			182.9 (1.4)
	April	194.3 (1.0)		188.0 (2.3)	189.1 (1.1)		183.5 (2.1)
	May			189.1 (3.1)			184.7 (3.0)
	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)
	June	208.2 (4.2)		202.9 (4.3)	203.8 (4.6)		198.6 (4.5)

		All Urban Consumers (CPI-U)			Urban Wage Earners & Clerical Workers (CPI-W)		
Year	Month	Seattle	Portland	U.S.	Seattle	Portland	U.S.
First half '06		205.8 (3.3)	199.8 (2.7)		200.8 (3.5)	194.7 (2.8)	
	July			203.5 (4.1)			199.2 (4.3)
	August	209.6 (4.9)		203.9 (3.8)	205.1 (5.0)		199.6 (3.9)
	September			202.9 (2.1)			198.4 (1.7)
	October	209.8 (3.2)		201.8 (1.3)	203.9 (2.7)		197.0 (0.9)
	November			201.5 (2.0)			196.8 (1.8)
	December	209.3 (4.2)		201.8 (2.5)	204.3 (4.2)		197.2 (2.4)
Second half '06		209.5 (4.1)	202.5 (2.5)		204.4 (4.0)	197.3 (2.7)	
ANNUAL AVE.		207.6 (3.7)	201.1 (2.6)	201.6 (3.2)	202.6 (3.7)	196.0 (2.7)	197.1 (3.2)
2007	January			202.416 (2.1%)			197.559 (1.8%)
	February	211.704 (4.0)		203.499 (2.4)	205.746 (3.9)		198.544 (2.2)
	March			205.352 (2.8)			200.612 (2.7)
	April	215.767 (4.0)		206.686 (2.6)	210.388 (3.9)		202.130 (2.5)
	May			207.949 (2.7)			203.661 (2.8)
	June	215.510 (3.5)		208.352 (2.7)	210.550(3.3)		203.906 (2.7)

Implicit Price Deflator for Personal Consumption Expenditures

Monthly Index and Cumulative Percentage Change from July 2006

	Jul 06	Aug	Sep	Oct	Nov	Dec	Jan 07	Feb	Mar	Apr
Orig. Index	115.151	115.455	115.089	114.820	114.834	115.215	115.422	115.890	116.390	116.732
Cum. % Change		0.264	(0.054)	(0.287)	(0.275)	0.056	0.235	0.642	1.076	1.373
IPD % Proj.		3.168	(0.323)	(1.150)	(0.826)	0.133	0.471	1.100	1.614	1.831
Prev. 12 Mo. % Change		3.206	1.933	1.468	1.867	2.225	1.919	2.259	2.342	2.178

Source: Survey of Current Business, Table B.1 - 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 2006. The third row represents the projections of the annual IPD since July of 2006 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 1.373 percent to 2.178 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 sometime in September.

In the meantime, you can track the progress of the IPD on our Web site at <http://www.mrsc.org/Subjects/Finance/ipdcht.aspx>.

Revenue Forecasts

Population Forecast

The official April 1, 2007 **city** population to be used for distributions in 2008 is 3,974,195. This is approximately 1.9 percent more than the population estimate for April 1, 2006. Most of this increase came from secular growth, with only 15 percent coming 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 effective date of the annexation. New cities also qualify on the first date of the quarter after their incorporation.)

We do have some annexation elections coming up in August and November 2007 in Auburn, Renton, and Federal Way. If all are successful and are effective on the dates currently forecast, they would reduce state-shared revenues by approximately 0.8 percent in 2008. This is such a small amount that we have decided not to adjust the April 1, 2007 population figure in making the per capita forecasts in Table 4.

The official April 1, 2007 **county** population is 2,513,805. This is an increase of 1.6 percent from 2006. We have used this number, unadjusted, in making the county forecasts for Liquor Board profits and the liquor excise tax.

Motor Vehicle Fuel Taxes

Gasoline and diesel fuel tax receipts for 2006 were one percent less than forecast in *Budget Suggestions for 2007* and the revised for forecast for 2007 is approximately 1.1 percent less.

Although state fuel taxes increased by two cents per gallon on July 1, 2007, cities and counties will not share in this increase. For those jurisdictions tracking month-to-month changes in revenues, the effects of the July 1, 2006 three-cent tax increase, of which the cities and counties each received a 8.3333 percent share, will continue to provide “new money” through the August 2007 distribution. Beginning with the September 2007 distribution, the effects of the 2006 tax increase will be in the base and growth will return to lower rate, driven purely by economic forces.

Lower fuel prices in 2008, both in absolute terms and relative to other prices, plus continued strong growth in inflation-adjusted personal income will result in an estimated 3.4 percent growth in fuel taxes in 2008.

The **city** 2007 and 2008 forecasts for total dollars and per capita amounts are in Tables 3 and 4.

The **county** distribution formula includes annual road costs and “need” in addition to population. The county estimates, based on these factors, are done by the County Road Administration Board (CRAB). The county allocation percentages for 2008 will be released after the board meets on July 26. We will provide this information on our Focus page at www.mrsc.org when it is available. Counties will also be notified directly by CRAB.

Liquor Revenues

Editor's Note: Our liquor revenue forecasts this year come from Stacey Sitko, the new Comptroller at the Liquor Board and the former Finance Director for the City of Shelton.

The price for liquor in the state of Washington is comprised of several components. There is of course the standard cost of goods sold, which includes the cost from the manufacturer and the delivery price of the alcohol. Then Federal and State taxes are applied to the cost, as well as mark-up for Liquor Control Board costs and surcharges imposed by the Liquor Control Board. The taxes are distributed according to RCW Chapter 82, and surcharges are distributed according to Liquor Control Board policy.

Liquor Board Profits

Simplistically, liquor board profits are the difference between the revenue from alcohol sales and the expenditures of the Liquor Control Board. The Liquor Control Board forecasts these profits through their Revenue Forecast Model that provides information to the Washington State Legislature and Economic Revenue Forecast Council.

As of July 1, 2007, a \$.42 per liter surcharge will no longer be applied to the cost of spirits sold. This will reduce the total dollar sales, but may not reduce the cost. Over the past few years, many manufacturers have absorbed fuel and other inflation related costs. With the discontinuance of the surcharge, many manufacturers have indicated that they will not reduce price, but instead keep the \$.42 per liter to cover costs that they have been absorbing. Overall, this could reduce gross sales about \$8,000,000 a year, and create a slight decrease in liquor profits distributed to cities and counties.

Liter sales of spirits (hard liquor) continue to grow at a rate of over 3%. Liter sales of wine also continue to grow at a rate of about 1%, while beer sales are not growing.

A Snohomish County Superior Court Judge ruled that the \$1.33 per liter additional tax on spirits imposed beginning July 1, 2005 was invalid. This tax generates over \$30,000,000 a year to the State's General Fund. The State Supreme Court has issued a stay in this ruling while the appeal continues through the courts. A final decision is not expected until sometime later this year. If the appellate court ultimately agrees that the tax is invalid, revenue forecasts will need to be updated, and possible refunds issued, which would affect the distribution to cities and counties of liquor board profits.

The 2006 actual liquor board profits fell short from the forecast, due to the supplemental appropriations that the Liquor Control Board received from the Legislature to increase capacity at the liquor distribution center and in the retail liquor stores. This authorization increased the Liquor Control Boards expenditures, thus reducing liquor profits. Liquor Board profits for 2006 ended up \$1.6 million less than originally projected.

The 2007 forecast is less than anticipated in last year's forecast due to this year's legislative session. The 2007 Legislative Session approved a \$31 million increase to the Liquor Control Board's budget. This increase has some critical components to the Board, for necessary equipment and technology upgrades. This funding will also open 29 more stores on Sundays, adding to the 30 stores opened last year for Sunday business. The increase in expenditures will reduce liquor profits, but the extra store hours will increase gross sales.

For 2008 and 2009, with the completion of the expansion of the liquor distribution center and increased hours and staff for the liquor stores, the Liquor Control Board expects sales to continue to rise. Other factors that will help increase gross sales is the increase in the number of restaurants licensed to sell alcohol, the state's

drinking-age population is expected to increase 19% in the next 10 years, and an increasing customer base interested in buying more expensive liquor products (sale of more top-shelf brands).

The Liquor Control Board does plan to ask the 2008 Legislature for supplemental appropriations to complete some additional staffing and technology needs. If these expenditures are authorized, it will decrease the liquor board profits distributed to cities and counties.

Overall, the Liquor Control Board anticipates around a 4% increase in liquor board profits for calendar year 2007 and a 5% increase for calendar year 2008.

Liquor Excise Taxes

Due to increased liquor sales, liquor excise taxes also continue to rise. Actual gross dollar sales have been just under 7% than last year. With anticipated sales growth from additional stores being open on Sundays, and additional staff hours in the stores to better serve customers, we feel this growth rate could be sustained. But to be consistent with the projections we have given the Economic Revenue Forecast Council, which we provide based on our fiscal year, we project five percent growth rate for liquor excise taxes for calendar year 2008.

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

City-County Assistance Forecast

Background

ESSB 6050, ch. 450, Laws of 2005, established the city-county assistance account in RCW 43.08.290, which receives 1.6 percent of the state real estate excise tax. This account provides funding for assistance for certain cities and counties according to the formulas set out below.

Counties: 1. To the extent possible, funds will be distributed to counties to increase the revenues received under RCW 82.14.030(1) (the first half-cent of the sales and use tax)¹ to the greater of \$250,000 (to be increased each year by the increase in the July implicit price deflator for personal consumption expenditures), or:

- a. (Section (3)(a)(i) in the statutes). For a county with an unincorporated population of 100,000 or less, an amount equal to 70 percent of the state-wide per capita average collected from the first half-cent of the sales and use tax in the unincorporated areas of all counties in the previous year;
 - b. (Section (3)(a)(ii) in the statutes). For a county with an unincorporated population of more than 100,000, an amount equal to 65 percent of the state-wide per capita average collected from the first half-cent of the sales and use tax in the unincorporated areas of all counties in the previous year.
2. (Section (3)(b) in the statutes). For a county with an unincorporated population of 15,000 or less, the county shall receive the greater of the amount in 1 above or the amount the county received in “backfill” for FY 2005 under section 716, ch. 276, Laws of 2004. (amended state budget).

¹In the discussion of this legislation, “first half-cent” will be used to mean the sales and use tax collected under RCW 82.14.030(1).

3. (Section (3)(c) in the statutes). For each county with an unincorporated population of more than 15,000 but less than 22,000, the county shall receive, for calendar years 2006 and 2007 ONLY, the greater of the amount in 1 above or the amount the county received in “backfill” for FY 2005 under section 716, ch. 276, Laws of 2004 (amended state budget).

If there are not enough revenues to fund the distributions above, then they will each be reduced proportionately. If there are more revenues than necessary to fund the above distributions, they shall be distributed proportionately on the basis of the unincorporated population among those counties that have received funds under this act and impose the second half cent of the sales and use tax under RCW 82.14.030(2) in the full amount.

Cities²: The formula used to allocate city funding is based on a sales tax and property tax equalization formula, and the 2005 MVET backfill levels. The sales tax and property tax equalization components of the formula are similar to the former sales tax equalization program that was funded with MVET.

Distribution formula for cities with a population of 5,000 or less:

Greater of:

- 55 percent sales tax equalization on the first 0.5 percent local sales tax, or
- 55 percent property tax equalization based on per capita assessed values per \$1,000 assessed value, or
- 2005 MVET backfill.

Exceptions:

- Cities with twice the statewide per capita assessed value not eligible for funding.
- Distributions capped at \$100,000 (to be increased each year by the increase in the July implicit price deflator for personal consumption expenditures).
- New cities incorporating after August 1, 2005 will not be eligible for funding.

Distribution formula for cities over 5,000 population:

Greater of:

- 50 percent sales tax equalization on the first 0.5 percent local sales tax, or
- 55 percent property tax equalization based on per capita assessed values per \$1,000 assessed value, or
- 2005 MVET backfill (not part of the formula after the 2005-07 biennium).

Exceptions:

- Cities with assessed value per capita above the statewide average not eligible for funding.
- Distributions capped at \$100,000 (to be increased each year by the increase in the July implicit price deflator for personal consumption expenditures).
- New cities incorporating after August 1, 2005 will not be eligible for funding.

If there are not enough revenues to fund the distributions above, then they will each be reduced proportionately. If there are more revenues than necessary to fund the above distributions, they shall be distributed proportionately on the basis of the unincorporated population among those counties that have received funds under this act and impose the second half cent of the sales and use tax under RCW 82.14.030(2) in the full amount.

²We wish to thank the Association of Washington Cities for this clear and compact description of the city assistance program. If the county program is amenable to such treatment, we were not clever enough to see how to do it.

Certification and distribution dates: Using the factors for cities and counties described above, the Department of Revenue (DOR) must certify the amounts to be distributed each year by March 1. (In practice, DOR does this in January, after it has received the data for the prior year's sales tax.)

Funds are distributed quarterly on April 1, July 1, October 1, and January 1 of the following year. Luckily, in order for funds to be distributed on those dates, the transfers must be made in the previous month, so the payments come in March, June, September, and December, and all the payments for the year are received on a cash basis during that year.

Forecasts

The total certification amounts for cities for **2007** is \$ 7,739,530. For counties, the amount is \$4,933,233.³ According to the June 2007 forecast of real estate excise tax receipts, cities and counties are each currently expected to receive \$8.23 million. Even though real estate excise tax receipts have fallen off in general as the housing market has slowed down, 2007 revenues have been increased by the receipt of three extraordinarily large non-recurring payments in the second quarter of 2007.⁴ Both cities and counties should receive the amounts for which they were certified in 2007, although cities that levy the second half cent of the sales tax may not receive as large a (or any) "bonus" payment in the fourth quarter as they did in 2006.

RCW 43.08.290 does not require the Department of Revenue to provide the certification numbers for **2008** until March 1, 2008. One necessary piece of information for the certification numbers is each city's and county's 2007 sales and use tax receipts for the first half cent sales tax. This information is not available until January.

So, what does one do for 2008 budgeting purposes? The Department of Revenue provides an estimate in September. By that time, it has information on the April 1, 2007 population and 2007 assessed valuations (for levying 2008 taxes). It also has enough sales tax revenue to make a crude forecast of receipts for the 2007 calendar year. These numbers will be used to calculate the **estimated** 2008 certification numbers for cities and counties. Note that, beginning in 2008, counties with an unincorporated population of more than 15,000 in population but less than 22,000 will no longer be certified on the basis of their FY 2005 backfill amounts. The same is true for cities with a population of more than 5,000.

Once they are available, MRSC will have a message on its Focus page at www.mrsc.org. AWC will note the availability in its *Interim Bulletin* and WSAC will do so in its *Courthouse Journal*. The certification numbers have to be compared with the real estate excise tax forecast for 2008 to see if it is likely that the amounts certified can be fully funded. Currently the Office of the Forecast Council is estimating that cities and counties will each receive \$7.46 million in real estate excise tax revenue in 2008, but the real estate excise tax is a very difficult revenue to forecast.

³To check on what the certification is for 2007 for a city, go to the AWC Web site at <http://www.awcnet.org/portal/StudioNew.asp?Mode=B1&WebID=1&UID=&MenuActionTypeID=81&MenuActionParm=128&OriginPage=/portal/StudioNew.asp&EDate=&ChannelLinkID=5746> (Another way to arrive at the same point is to type in www.awcnet.org/budgetingresources in the address bar. Then click on "Background on Fiscal Issues that May Impact the Budget," then on "ESSB 6050 – Local Government Financial Assistance." In the April and July 2007 spreadsheets, you will see a column titled "ESSB 6050 Amount.") If the county spreadsheets are not available on that site now, they will be soon.

⁴Washington State Economic and Revenue Forecast Council, *Economic and Revenue Forecast*, Olympia, WA, June 2007, 49.

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. (In 2006, the distribution had grown to over \$5.3 million.)

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.

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 2007, 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 amount of premiums in all categories was higher. As a result, the “ratio value” (the amount of the tax allocated per firefighter) was \$802 compared to the \$709 we forecast. The allocations for the 2007 distribution are shown in Table 7.

For 2008 we are assuming there will be a one percent growth in the number of firefighters and that insurance premiums will increase by four percent. We have also assumed that the percents of losses due to fire follow their historical norms. These assumptions produce a ratio value of \$745.

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.

Summary of Local Share of State-Shared Revenues Total Dollar Amounts – 2005 to 2008 <i>(All Cities and Towns)</i>				
	2005	2006	2007 Revised	2008 Estimate
Gas Tax (unrestricted)	NA	NA	NA	NA
Gas Tax (restricted)	NA	NA	NA	NA
Gas Tax (NEW unrestricted)*	80,696,303	89,210,539	96,466,000	99,729,000
Profits of Liquor Board	26,749,250	24,847,363	26,714,000	28,153,000
Liquor Tax	15,455,400	16,460,145	17,805,000	18,695,000
Criminal Justice - former CTED programs	2,788,052	2,887,344	2,974,000	3,063,000
Criminal Justice – Population-based	826,089	855,509	881,000	907,000
Total	\$126,515,094	\$134,260,900	\$144,840,000	\$150,547,000

Table 3

Per Capita Amounts – 2001 to 2008 <i>(All Cities and Towns)</i>								
	2001	2002	2003	2004	2005	2006	2007 Rev.	2008 Est.
Gas Tax (unrestricted)	\$14.66	\$14.38	\$14.19	\$14.03	NA	NA	NA	NA
Gas Tax (restricted)	6.85	6.72	6.64	6.56	NA	NA	NA	NA
Gas Tax (NEW unrestricted)*	NA	NA	NA	NA	21.33	23.20	24.72	25.09
Profits of Liquor Board	5.36	5.46	6.26	7.24	7.07	6.46	6.85	7.08
Liquor Tax	3.35	3.51	3.57	3.87	4.09	4.28	4.56	4.70
Criminal Justice - former CTED programs	NA	NA	NA	0.72	0.74	0.75	0.76	0.77
Criminal Justice – Population-based	0.21	0.21	0.21	0.21	0.22	0.22	0.23	0.23
Total	\$30.43	\$30.28	\$30.87	\$32.63	\$33.45	\$34.91	\$37.12	\$37.88

Table 4

*To get numbers for 2001 and 2004 comparable to those for the following years, add the two rows above.

Summary of Local Share of State-Shared Revenues Total Dollar Amounts – 2005 to 2008 <i>(All Counties)</i>				
	2005	2006	2007 Revised	2008 Estimate
Profits of Liquor Board	\$7,186,437	\$6,728,592	\$7,219,000	\$7,603,000
Liquor Excise Tax	3,474,850	3,721,536	4,036,000	4,243,000
Total	\$10,661,287	\$10,450,128	11,255,000	\$11,846,000

Table 5

Per Capita Amounts – 2001 to 2008 <i>(All Counties)</i>								
	2001	2002	2003	2004	2005	2006	2007 Rev.	2008 Est.
Profits of Liquor Board	\$2.17	\$2.23	\$2.64	\$3.03	\$2.95	\$2.72	\$2.92	3.04
Liquor Excise Tax	1.10	1.14	1.23	1.35	1.43	1.50	1.63	1.70
Total	\$3.27	\$3.37	\$3.87	\$4.38	\$4.38	\$4.22	\$4.55	\$4.74

Table 6

Distribution of Fire Insurance Premium Tax – RCW 41.16.050 <i>May 2007</i>			
City/District	Ratio Value	Number of Paid Firefighters as of January 1, 2007	Amount¹
Aberdeen	\$741.14	35	\$ 28,086.36
Anacortes		18	14,444.42
Auburn		75	60,185.07
Bellevue		198	158,888.58
Bellingham		134	107,530.65
Bothell		49	39,320.91
Bremerton		51	40,925.85
Camas		34	27,283.90
Centralia		22	17,654.29
Chehalis		13	10,432.08
Edmonds		53	42,530.78
Ellensburg		20	16,049.35
Everett		179	143,641.69
Hoquiam		23	18,456.75
Kelso		12	9,629.61
Kennewick		76	60,987.53
Kent		151	121,172.60
Kirkland		85	68,209.74
Longview		43	34,506.10
Lynnwood		52	41,728.31
Mercer Island		29	23,271.56
Moses Lake		29	23,271.56
Mount Vernon		32	25,678.96
Olympia		79	63,394.94
Pasco		50	40,123.38
Port Angeles		23	18,456.75
Port Townsend		9	7,222.21
Pullman		31	24,876.49
Puyallup		56	44,938.18

Distribution of Fire Insurance Premium Tax – RCW 41.16.050 <i>May 2007</i>			
City/District	Ratio Value	Number of Paid Firefighters as of January 1, 2007	Amount¹
Raymond		13	10,432.08
Redmond		133	106,728.19
Renton		106	85,061.56
Richland		55	44,135.72
Seattle		1,028	824,936.65
Shelton		6	4,814.81
Spokane		278	223,085.98
Sumner		24	19,259.22
Sunnyside		14	11,234.55
Tacoma		402	322,591.96
Toppenish		5	4,012.34
Tukwila		63	50,555.46
Vancouver		176	141,234.29
Walla Walla		46	36,913.51
Wenatchee		34	27,283.90
Yakima		84	67,407.27
King County #10		122	97,901.04
King County #2		37	29,691.30
Spokane County #1		144	115,555.33
Totals		4,431	\$3,555,733.76
<p>¹The amounts shown in the fourth column are the actual distributions by the state. However, if one multiplies the ratio value shown by the number of firefighters in each row, the results are slightly different from the actual amount shown. We have displayed the ratio value as rounded to two decimal places; the actual ratio value used by the state had nine decimal places.</p>			

Table 7

What's Ahead for Cities and Counties in 2009?

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. Below you will find a table that shows forecasts of 2009 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, 2009 estimates, which will not be used to distribute state-shared revenues until 2010.

Kirkland plans on having an annexation election to include Kingsgate, Upper Juanita, and Finn Hill in late 2008, to be effective in 2009. Renton has an election for the West Hill (Skyway) area in late 2008 or early 2009 on its drawing board. It would involve 10,500 people. Seattle and Burien continue to have discussions about which city will annex the North Highline area (population, approximately 32,000). We are told that the vote could be in the autumn of 2008. Citizens in Fairwood, who led an incorporation effort in 2006 that failed to receive enough votes, are mounting another campaign. If they succeed in getting on the ballot in August 2008 and the election is successful, they would incorporate and begin to receive state-shared revenues in the last quarter of 2009.

City Per Capita State-Shared Revenue Estimates – 2009		
	With No Incorporations/ Annexations	With Incorporations/ Annexations
Gas tax (NEW unrestricted)	\$25.32	\$24.88
Liquor board profits	7.21	7.08
Liquor excise tax	4.79	4.70
Criminal Justice (former CTED programs)	0.78	0.76
Criminal Justice (population)	0.23	0.23
Total	\$38.32	\$37.65

County Per Capita State-Shared Revenue Estimates – 2009	
Liquor board profits	\$3.10
Liquor excise tax	1.73
Total	\$4.83

Financing Public Infrastructure under the LIFT Statute

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The Local Infrastructure Financing Tool (“LIFT”) program provides a form of tax increment financing for public infrastructure projects within revenue development areas (“RDAs”) created by a local government. Chapter 39.102 RCW. The key feature of the LIFT program is a state sales and use tax credit available to local governments that are successful in applying for and meeting the relatively complex ongoing requirements associated with this state support. The 2007 legislature recently passed amendments to the LIFT statute. 2007 Wash. Laws ch. 229. Most notably, the 2007 amendments increase the amount of the state contribution available through the state sales and use tax credit mechanism. The maximum aggregate state contribution is increased from \$5 million to \$7.5 million per state fiscal year. The 2007 amendments also include technical changes designed to facilitate financing through the LIFT program as well as changes to the process and timing of applications for state support.

The LIFT statute authorizes certain “local governments,” including cities, towns, counties, port districts and federally recognized Indian Tribes, to participate in a “revenue development area” for the purpose of financing local infrastructure projects. RDAs are initiated by a city, town, county or tribe (or any combination), as sponsoring or co-sponsoring local government(s), and may involve other local governments as participating local governments and participating taxing districts by interlocal agreement. The local infrastructure projects are intended to encourage private development to generate increased tax revenues within the RDA; the increased state and local tax revenues are, in turn, necessary preconditions to receipt of the state sales and use tax credit. In this manner, the LIFT program is a form of tax increment financing, using the increased tax revenues generated by private development to finance the public infrastructure to attract such private development.

Establishing a Revenue Development Area

The LIFT statute includes a number of threshold requirements for formation of an RDA:

- As amended, the LIFT statute generally limits the creation of RDAs to one per county (except in counties with a demonstration project, including Whatcom, Spokane and Clark counties, and except for RDAs created by sponsoring local governments located in more than one county).
- The 2007 legislation does not permit an RDA to overlap with a hospital benefit zone (e.g., in the Gig Harbor area) or with another RDA.
- The statute requires that: (a) the assessed value of taxable property included within the RDA not exceed \$1 billion, (b) the average assessed value of taxable property within the RDA, as of January 1 of the year the application is submitted, not exceed \$70 per square foot, (c) the property within the RDA be contiguous, (d) the RDA not include more than 25% of the assessed value of taxable property within the sponsoring local government (including any co-sponsor), and (e) RDA boundaries not be drawn purposely to exclude areas where economic development is unlikely (i.e. no gerrymandering).
- The following procedural requirements must be satisfied, among others:
 - Certain planning, studies and findings are required by the statute.

- Any participating local jurisdictions and taxing districts must agree to allocate incremental sales and use taxes or property taxes or other local funds to public infrastructure within the RDA.
- The statute requires that notice be published, posted and sent to certain property owners, businesses and organizations.
- A public hearing must be held prior to the final adoption of the ordinance authorizing the RDA. The 2007 amendments remove the requirement that the hearing be held at least 30 days prior to the adoption of the ordinance.
- The sponsoring (and any co-sponsoring) local government must adopt an ordinance or other legislative action approving the RDA.
- The sponsoring local government or any local participants enter into (or expect to enter into) a contract with the private developer or receive a letter of intent from a private developer regarding development of private improvements with the RDA.

Sources of Funding

The LIFT statute authorizes the dedication of three main sources of tax revenue to project financing: local property taxes, local sales and use excise taxes and a state sales and use tax credit. Participating taxing districts and the sponsoring local government are authorized to dedicate incremental increases in local property tax revenues to the infrastructure project. Participating local governments are also authorized to dedicate incremental increases in local sales and use tax revenues to finance the improvements. The sponsoring local government may impose a new sales and use tax within the redevelopment area to be credited against the state sales and use tax. Neither the local sales and use tax revenues nor the local property tax revenues may constitute more than 80% of the total local funds dedicated to the project (under the 2007 amendments, this requirement applies beginning in the fifth calendar year after the calendar year in which the sponsoring local government begins allocating local excise tax allocation revenues). These funding sources interact and are subject to limitations under the LIFT statute, as illustrated on the attached chart.

Local Property Tax Contribution

The statute includes defined terms that govern the distribution of local regular property taxes within the RDA. First, “property tax allocation revenue value” (the “increment value”) basically includes 75% of increased assessed value in the RDA from new construction. Second, “property tax allocation base value” (the “base value”) includes the assessed value in the RDA when formed, the other 25% of increased assessed value from new construction, plus other increases in assessed value. Local governments within the RDA that have entered into a written agreement with a sponsoring local government to contribute some or all local property tax allocation revenues or other local revenues for local infrastructure financing are referred to as “participating taxing districts” in the statute.

After creation of the RDA the county treasurer allocates local regular property taxes within the RDA to participating tax districts and the sponsoring local government based on the base value, and allocates additional local regular property taxes within the RDA to the sponsoring local government based on the increment value. These property tax allocations do not include excess levies, state levies for the support of common schools, public utility district levies for debt service or levy lid lift funds for specific purposes.

Local Excise (Sales and Use) Tax Contribution

Each participating jurisdiction may allocate increased sales and use taxes within the RDA to finance public infrastructure costs. Local governments within the RDA that have entered into a written agreement with a sponsoring local government to contribute increased sales and use taxes or other local revenues for local

infrastructure financing are referred to as “participating local governments” in the statute. The increase in local sales and use taxes is determined by comparing the amount of these taxes generated by taxable activity in the RDA in the “measurement year” compared to the “base year”.

For purposes of this equation, the “base year” is the first calendar year following the calendar year in which the RDA is approved for a project award, provided that the approval is granted before October 15th. If approval is received on or after October 15th but on or before December 31st, the “base year” is the second calendar year following the calendar year in which such approval is received. “Measurement year” means a calendar year, beginning with the calendar year following the base year and each calendar year thereafter, that is used annually to measure state and local excise tax allocation revenues.

State Contribution

The annual state contribution limit is increased in the 2007 legislation from \$5 million dollars to \$7.5 million. Up to \$2.5 million of the state contribution may be allocated to the three named demonstration projects (the Bellingham Waterfront Redevelopment Project, the Spokane River District Project, and the Vancouver Riverwest Project). For these three demonstration projects, the award for the Bellingham Waterfront Redevelopment Project and the Spokane River District Project is limited to \$1 million each per year and the award for the Vancouver Riverwest Project is limited to \$500,000 per year. The remaining state contribution is available through a competitive application process. Before imposing the state sales and use tax credit, a sponsoring local government and any co-sponsoring local government must apply to the Community Economic Revitalization Board (“CERB”) and be approved for a project award amount. The state approval will set forth an award amount that is equivalent to the maximum amount that the state will invest in the project. The 2007 legislation created two “rounds” for submitting an application for a project award amount.

- 2007 Round. The 2007 round authorized no more than \$2.5 million in competitive funding for applications received by the July 1, 2007 deadline.
- 2008 Round. Applications for the 2008 round are due July 1, 2008. No more than \$5 million (including 2007 awards) in competitive funding is available.
- The statute includes the criteria for CERB review of applications.

Once a sponsoring local government has received a project award, it may impose a sales and use tax to be credited against the state sales and use tax. The amount of state sales tax credit received each year by the sponsoring local government is limited to the lesser of:

- \$1 million.
- The amount of the project award.
- The amount of local matching funds (consisting of local sales and use tax allocation revenues, local property tax allocation revenues and other revenues from local public sources dedicated in the prior calendar year to financing the LIFT public infrastructure) reported to the state.
- The amount of increased revenue received by the state in the RDA (including state sales and use tax allocation revenues and state property tax allocation revenues) in the prior calendar year.

A worksheet illustrating the methodology for determining the amount of the annual state contribution to a project is available from CERB at

<http://www.cted.wa.gov/DesktopModules/CTEDPublications/CTEDPublicationsView.aspx?tabID=0&ItemID=3833&MIId=877&wversion=Staging>. As noted above, the timing of the receipt of the state sales tax credit is affected by the local match requirements for the state credit. Because the state sales tax credit is based on local matching funds dedicated in the prior calendar year, it is important for planning purposes to recognize that the state sales tax credit lags behind by one year. A dip in local revenues will, therefore, affect the year in which the local revenue dip occurs as well as the state sales taxes in the following year.

Eligible Public Infrastructure

The funding sources identified above must be used for “local infrastructure financing”. The 2007 amendments revised the local infrastructure financing permitted under the statute to include pay-as-you-go expenditures (prior to the date that debt service payments on bonds commence) as well as debt service on bonds issued to finance public improvements. The public infrastructure improvements must be located within the RDA. Eligible public improvements include:

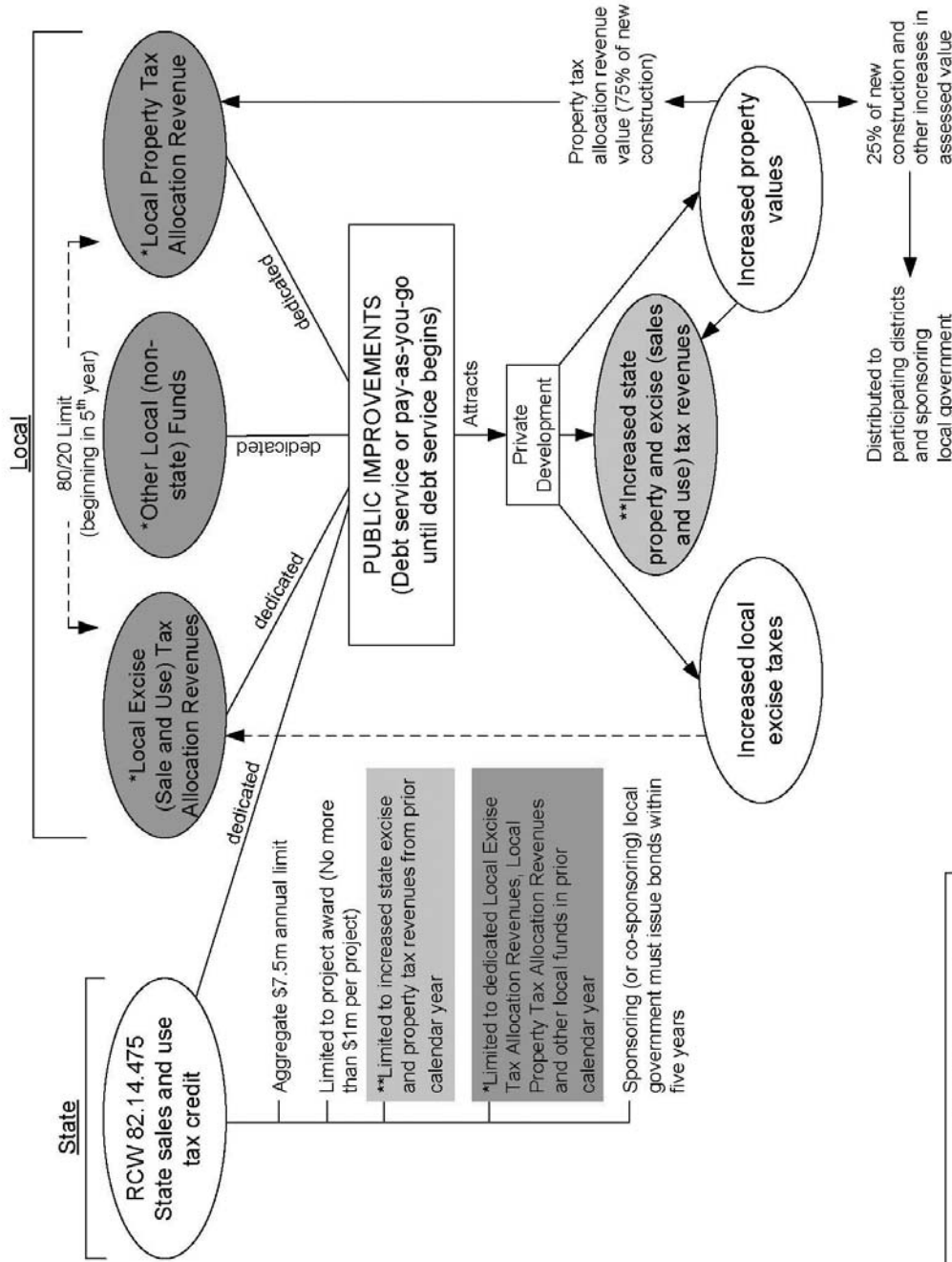
- Street, bridge and road construction and maintenance
- Water and sewer system construction and improvements
- Sidewalks, traffic controls and street lights
- Parking, terminal and dock facilities
- Park and ride facilities of a transit authority
- Park facilities and recreational areas
- Storm water and drainage management systems
- Expenditures for facilities and improvements that support affordable housing

The improvements cannot include projects funded with voted sales taxes available to public facilities districts. The financing is likely to be in the form of limited tax general obligation bonds issued by the sponsoring local government, although the statute authorizes revenue bonds (the statutory requirements and limitations with respect to revenue bonds are challenging). The 2007 legislation requires that bonds be issued by the fifth year in which the state sales and use tax credit is imposed.

Summary

The LIFT statute, as amended in 2007, provides some state funding for public infrastructure improvements designed to attract private development to generate additional tax revenues. As described above, the statute permits the formation of RDAs that meet specific statutory criteria and requires approval from CERB for the state sales and use tax credit. Successful applicants may receive up to \$1 million per year to finance public infrastructure, over a term of up to 25 years. The timeline for applying to CERB for state support is tight, particularly with respect to the 2007 application round.

Please let us know if you have any questions or need more information.



Architecture of LIFT Financing

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Internal Controls

by Gayla Gjertsen, Finance Director, City of Tumwater

It's time for us to discuss something you may have heard about from time to time – “Internal Controls.” You may have seen statements like these in audit reports: “Internal controls were adequate to safeguard public assets;” or “the entity should improve internal controls over cash transactions;” or “the entity does not have adequate internal controls for us to assure the safeguarding of public assets.” What types of internal controls do you have and what does that mean for your operations?

The Challenge for Small Entities

Large and medium sized entities have more options for providing internal controls, due to the simple fact that they have more staff; whereas, smaller entities don't have that luxury. We all get busy, thereby cutting corners, because we are being asked to do more and more. We get accustomed to doing things a certain way and often find it difficult to change. Nevertheless, it's still possible for smaller entities to institute effective internal control mechanisms. Internal controls means different things to different people, but they are basically designed to promote efficiency, reduce risk of asset loss, and help ensure the reliability of financial statements and compliance with laws and regulations.

Basic Internal Controls Mechanisms

A division of duties in the handling of cash and other processes is one of the most effective ways to ensure proper internal controls. No single individual should have complete control in the handling of cash. Specifically, there should be a separation of duties for handling money, recording transactions, and reconciling bank accounts. For example, a good procedure is to have two people opening all of the mailed payments received by your entity. You're asking “how do I do that with such a small work force?” Sometimes we have to be innovative. For example, you may have a court clerk that could help with opening not only your mailed payments, but the court's. Do them together every morning, recording the city's regular payments and those received by the court. Another option would be to pull someone from another department for a few minutes every day who could assist with this process. Remember, internal controls procedures/policies protect not only the entity, but you and your employees as well.

Risk Assessment

Every entity faces a variety of risks from external and internal sources that must be assessed. Risk assessment is the identification and analysis of relevant risks to the achievement of your objectives, which then form the basis for determining how those risks should be managed.

Other than the basic example we talked about, where and how do you assess risk? One way is to look at changes in personnel or processes that have occurred recently and/or those that have not changed in a very long time. Look at changes in personnel (e.g., in a sensitive position; or someone that has been in a position for a very long time); changes in technology systems; changes brought on by rapid growth (that may lead to cutting corners); or changes in the complexity of processes. If you review these basic processes, taking special

note of the types of changes listed here, and just ask questions about them, your risk assessment will be done quickly.

Ongoing Monitoring

Internal controls systems need to be monitored—a process that assesses the quality of the system’s performance over time. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties.

Legislative Body’s Role

Management is accountable to the legislative body (councils) which provides governance, guidance and oversight. Effective councilmembers are objective, capable and inquisitive. They have knowledge of the entity’s activities and environment, and commit the time necessary to fulfill your legislative responsibilities. Management establishes controls and provides communications to subordinates, which sets in place a culture based on honest management and commitment. A strong, active council, particularly when coupled with effective upward communications channels and capable financial and legal staff, will be able to identify, establish and maintain the most effective internal controls.

Update on Pension Contribution Rates

In the last two editions of *Budget Suggestions*, we issued warnings that the PERS pension contribution rates for employers would be increasing quite significantly in future years. In the article below, the chart shows a jump from 6.12 percent, effective July 1, 2007, to 8.31 percent, effective July 1, 2008. This follows the increase from 3.69 percent to 5.47 percent that became effective January 1, 2007.

As noted on page 8 in the discussion of EHB 2391, the legislation that eliminated gain-sharing, the Washington Education Association (WEA) is challenging this repeal. The bill states that if gain-sharing benefits are reinstated, the new benefits that were added in the bill will be repealed. However, the WEA is asking for the reinstatement of gain-sharing without repeal of the new benefits.

Editor's Note: The material below is reproduced, with permission, from the Association of Washington Cities Legislative Bulletin Volume No. 30 – Interim No. 1, June 21, 2007.

Pension System Contribution Rate Update

The following is a simple chart of contribution rates for local governments and their employees. The rates reflect the repeal of gain-sharing, the cost of the January 2008 gain-sharing event, and the cost of the benefit enhancements enacted this past session (including the reductions in early retirement factors outlined in ESB 2391, the bill that repealed gain-sharing).

It is important to note that there are also a couple of other changes that impact the rates as of July 1, 2007 and September 1, 2007:

- The Department of Retirement Systems has reduced the administrative expense rate that is added to employer rates from .18% to .16% as of 9/1/07.
- The PERS employer rates include a component to fund the PERS 1 unfunded liability. That amount is 1.79% effective 7/1/07, increasing to 1.82% effective 9/1/07.

Pension Contribution Rates – Employers						
	1/1/07 - 6/31/07	7/1/07 - 8/31/07	9/1/07 - 6/30/08	7/1/08 - 6/30/09	7/1/09 - 6/30/11 (Projected)	7/1/11 - 6/30/13 (Projected)
PERS 1, 2, & 3	5.46%	6.12%	6.13%	8.31%	9.10%	9.12%
PSERS	8.53%	8.54%	8.55%	9.43%	10.17%	10.24%
LEOFF 1	0.18%	0.18%	0.16%	0.16%	0.18%	0.16%
LEOFF 2	4.90%	5.35%	5.33%	5.46%	5.39%	5.26%

Pension Contribution Rates – Employees					
	7/1/06 - 6/30/07	7/1/07 - 6/30/08	7/1/08 - 6/30/09	7/1/09 - 6/30/11 (Projected)	7/1/11 - 6/30/13 (Projected)
PERS 1	6.00%	6.00%	6.00%	6.00%	6.00%
PERS 2	3.50%	4.15%	5.45%	5.43%	5.38%
PSERS	6.57%	6.57%	6.57%	6.57%	6.57%
LEOFF 1	0.00%	0.00%	0.00%	0.00%	0.00%
LEOFF 2	7.85%	8.60% **	8.82%	8.71%	8.49%

**** Note:** The State Actuary has recommended supplemental LEOFF 2 employer and employee rate increases effective 9/1/07 (.03% for employees and .02% for employers) due to 2007 legislation. Assuming the LEOFF 2 Board adopts those recommendations, the LEOFF 2 employer rate will increase to 5.35% as of 9/1/07 and the LEOFF 2 member rate will increase to 8.63% as of the same date.

For a more detailed chart showing the components of the various rates, go to the State Actuary’s website at <http://osa.leg.wa.gov> and click on Contribution Rates.

Streamlined Sales Tax Mitigation

Introduction

Some cities and counties will lose, at least initially, sales tax revenues because of the passage of SSB 5089, Ch. 6, Laws of 2007. This legislation (see the discussion on page 5) adopts “destination-based” sourcing for the allocation of sales taxes. The Washington State Department of Revenue has written a set of questions and answers and a description of the mitigation plan. These documents are reproduced below.

Mitigation for Local Governments Affected by Streamlined Sales Tax Changes Washington State Department of Revenue

On July 1, 2008, the State of Washington will take the final step in conforming with the national Streamlined Sales and Use Tax Agreement (SSUTA) by basing the local retail sales tax on shipped or delivered goods on the destination of the goods instead of their origin. This change will shift local sales tax revenues among jurisdictions; some jurisdictions will gain revenues while others will see a loss. To ease the hardship on negatively impacted jurisdictions, a provision was included in the streamlined sales tax statute to mitigate losses in revenue. Here are answers to some of the more common questions about mitigation.

1. Who is eligible for mitigation?

Any local jurisdiction that experiences a net loss in sales tax revenues because of the change to destination sourcing is eligible for mitigation.

2. When does mitigation start?

The first mitigation amount will be distributed on Dec. 31, 2008. It will cover net losses for July, August, and September of 2008.

3. How frequent is mitigation?

Mitigation amounts will be distributed at the end of each quarter for the previous quarter.

4. What is covered by mitigation?

Mitigation covers adjusted net losses from the change to destination sourcing that begins July 1, 2008. The net loss is reduced by subtracting the amount of tax gained by the jurisdiction from sellers in other states voluntarily registered through the SSUTA. The net loss will be calculated during the first year using tax reporting data. After that, the amount of net loss will be fixed for each jurisdiction; although the net loss from sourcing will be fixed, the amount of mitigation will change based on gains from voluntary registrants.

5. What is the funding source for mitigation?

Money for mitigation will be transferred from the general fund to a mitigation account. For the first two years of mitigation, this amount will be estimated using a 2004 Revenue study of sourcing impacts. After that, specific data on losses will be available to determine a more precise amount.

6. When does mitigation end?

When a jurisdiction's new funds from voluntary registrants exceed the net loss, the jurisdiction will no longer receive mitigation.

7. Will my jurisdiction receive mitigation for new delivery businesses that start after July 1, 2008?

No. Mitigation is based on losses from businesses located in a jurisdiction prior to the implementation of destination-based sourcing.

8. Will my jurisdiction receive mitigation for delivery businesses that go out of business after July 1, 2009?

Yes. Since the mitigation base does not change, the jurisdiction will continue to be mitigated for those businesses, even if they go out of business or move.

9. How is the mitigation amount determined?

Mitigation will be based on a firm by firm comparison of sales patterns in each jurisdiction before and after the change to destination sourcing. (See Revenue's 2006 mitigation timeline and methodology for more detail.)

10. What assurance is there that mitigation calculations will be as accurate as possible?

Revenue is dedicating considerable resources to the calculation of mitigation amounts. An advisory committee will assist and advise Revenue. The advisory committee will include representatives from local government, from both negatively and positively impacted jurisdictions.

11. If I have questions, who should I contact?

You may contact Lorrie Brown at lorrieb@dor.wa.gov or (360) 570-6081. Once the advisory committee is formed, it will also be a source of information.

**Mitigation Plan
Washington State Department of Revenue
December 2006**

The amount of mitigation will be based on the estimated loss to a jurisdiction that is caused by the change to destination-based sourcing. This loss will be adjusted by subtracting the amount of local sales tax each jurisdiction receives from voluntary compliance and adding losses from sellers who start complying with SSTA sourcing after the reporting periods analyzed to determine mitigation.

The Two Stages of Mitigation Analysis

The determination of mitigation amounts will be done in two stages. The first stage will be from July 1, 2008, until September 30, 2009. During this period, a new loss amount will be determined each quarter. On September 30, 2009, the Department expects to have sufficient data to evaluate the loss amount for each jurisdiction on which mitigation will be based. That loss amount will be fixed on December 31, 2009, unless, in consultation with the advisory committee, the Department believes more time is needed to establish accurate loss amounts. Mitigation after this point will only be adjusted for the change in voluntary compliance and in-state sellers coming into compliance with SSTA sourcing after the reporting periods analyzed to determine mitigation.

Timing of Mitigation—Stage One

The first stage of mitigation will begin December 31, 2008, when the first mitigation checks will be distributed to local taxing jurisdictions. This mitigation will cover retail sales tax collections for July, August, and September. Subsequent mitigation distributions will cover a calendar quarter (three months of collections).

Mitigation will continue for stage one each quarter until September 30, 2009. Mitigation for stage one will be based on loss estimates made by DOR each quarter. The quarterly loss estimates will use actual tax return data for the mitigation period, compared with tax return data for the same quarter in the previous year (e.g. July, August, September 2008 will be compared to July, August, September, 2007). (See below for more detail on the loss estimation methodology.)

Timing of Mitigation—Stage Two

By September 30, 2009, the Department expects to have enough data, one full year, to conduct the study to determine permanent retail sales tax losses and to determine the amount of mitigation that will remain a fixed amount for future distributions used on December 31, 2009, and thereafter. The evaluation will be done by comparing a year of destination-based sourcing data (from July 2008 through June 2009) with a year or more of origin-based sourcing (e.g. from July 2007 through June 2008). As with stage one, the amount of mitigation will be offset by voluntary compliance revenues. Distributions will be made quarterly.

An advisory committee made up of representatives from local jurisdictions will work with the Department to determine the exact methodology for quarterly distributions and permanent mitigation. Local jurisdictions may work through the advisory committee to present data that would improve the estimates for their jurisdiction.

Proposed Methodology to Determine Losses

Between September 30, 2009, and December 31, 2009, the Department will analyze the data in order to determine mitigation amounts for stage two. The methodologies for stage one and stage two are the same. The only differences are 1) the reporting periods (the data) used for the analysis and 2) stage one mitigation will change from quarter to quarter while stage two mitigation will be more stable.

The proposed methodology would use a comparison of before- and after-the-fact data on all firms in impacted jurisdictions. For each firm that is impacted by a change in sourcing, a comparison of their taxable retail sales by location before and after the sourcing change would be made. Because taxpayers are required to code

local retail sales tax on DOR's excise tax return, we can accomplish the analysis without supplemental reporting. The before-sourcing percentage allocation of sales by jurisdiction would be compared with the after-sourcing total firm sales in order to determine what a jurisdiction would have received without SSTA sourcing. This amount would be compared with what they do receive with SSTA sourcing. The difference, less the voluntary compliance distributions, would be fully mitigated.

For stage one, the comparison will be from quarter to quarter (for example, July, August, and September, 2008 compared to the same three months in 2007). For stage two, the comparison will be for September 2008 to September 2009 compared to a base period. The base period can be either one year (e.g. July 1, 2007, to June 30, 2008) or an average of multiple years (e.g. FY 06 and FY 07) before the adoption of SSTA sourcing. The multiple year average should be considered by cities as an option because it can be useful in addressing return data volatility from year to year in individual firms' origin-based deliveries.

Proposed Methodology to Determine Adjustment for Voluntary Compliance

Remote sellers registering under the Agreement are being assigned unique tax registrations by certified service providers. Consequently, voluntary compliance revenues under the Agreement are being tracked separately from other retail sales tax revenues. DOR will know the amount of voluntary compliance revenues collected for each local taxing jurisdiction and will offset the amount of mitigation by that amount.

Unfortunately, some voluntary sellers that have a brick & mortar affiliate with nexus are combining their voluntary remote sales collections with their collections from their nexus account. Therefore some new voluntary collections will not be tracked separately. The unknown portion of the adjustments for voluntary collections will be forecast using pre- and post- destination sourcing data for those voluntary sellers that do not separately state new revenues.

Because it will be difficult to estimate revenues from these sellers in further years, a base forecast for the adjustment will be set after the first year for each jurisdiction. The base forecast for each jurisdiction will be adjusted by a growth rate each year. The growth rate will be equal to the growth in Washington State Taxable Retail sales.

Example

In 2007, Firm A sold \$1 million in total retail sales, \$600,000 or 60 percent were coded by the retailer on its excise tax return as being sourced to City AWC. In 2008 (after destination sourcing), Firm A sells \$2 million in sales, but only \$200,000 is coded to City AWC. If sales had continued with the same pattern as before the implementation of SSTA sourcing, City AWC is assumed to have had \$1.2 million in sales. Therefore their estimated loss would be the \$1 million difference in sales, multiplied by their local tax rate. Mitigation would be equal to this loss minus the adjustment for voluntary compliance.

Assume City AWC's tax rate is 1 percent. Also assume that City AWC receives \$2,000 in sales tax from voluntary compliance. City AWC would then receive \$8,000 in mitigation (equal to 1 percent multiplied by \$1 million loss in tax base, less \$2,000 for voluntary compliance). The equations for calculating the mitigation are as follows:

Firm A during CY 2007 (origin-based sourcing) sources sales to City AWC: \$600,000 of \$1,000,000 in sales (or 60 percent of total sales)

Firm A during CY 2008 (destination-based sourcing) sources to City AWC: \$200,000 of \$2,000,000 in sales

If sales from Firm A during 2008 were sourced under (pre-SSTA) origin-based sourcing, estimated sales to City AWC: $\$2,000,000 \times 60 \text{ percent} = \$1,200,000$

Therefore, City AWC's estimated loss in sales base due to SSTA sourcing: $\$1,200,000 - \$200,000 = \$1,000,000$

Estimated loss of tax at 1 percent rate: $\$1,000,000 \times 1 \text{ percent} = \$10,000$

City AWC's voluntary compliance: \$2,000

Mitigation for Firm A losses after voluntary compliance adjustment: $\$10,000 - \$2,000 = \$8,000$

Assume that City AWC's voluntary compliance revenues increase 10 percent each year. Mitigation for the next five years:

CY 2010: $\$10,000 - \$2,200 = \$7,800$

CY 2011: $\$10,000 - \$2,420 = \$7,580$

CY 2012: $\$10,000 - \$2,662 = \$7,338$

CY 2013: $\$10,000 - \$2,928 = \$7,072$

CY 2014: $\$10,000 - \$3,220 = \$6,780$

Adjustment for Local Sales Tax from Voluntary Collections

Retailers that collect retail sales tax under the SSTA amnesty agreement will be tracked. The local distributions from these sales will therefore be known each quarter.

Advisory Committee and Jurisdictional Input

An advisory committee consisting of local jurisdictional representatives with technical expertise will work with DOR to refine the methodology for determining each jurisdiction's loss related to SSTA sourcing. The advisory committee will meet at least quarterly during the first stage of the process and at least annually prior to distributions thereafter. Additional meetings may be scheduled as necessary. The purposes of these meetings are to review the Department's methodology, gather local jurisdiction input, and determine whether compliance regarding SSTA sourcing has stabilized. At the meetings, jurisdictions can provide information to the advisory committee regarding SSTA sourcing compliance of firms in their jurisdiction. For example, a jurisdiction may be aware that a firm did not change to SSTA sourcing until July 2009. In this case, the retail sales tax loss to the jurisdiction would not be measured by the stage two analysis. By informing the advisory committee of the firm's late compliance, the mitigation for that jurisdiction would be adjusted (increased) from that time onward.

Initiatives

Update of Initiative 747

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 that the voters in November 2001 were incorrectly led to believe they were voting to amend I-722. The state appealed the ruling to the Washington State Supreme Court and also sought and were granted a “stay,” which means that the one percent limit of Initiative 747 remains in effect until and unless the court rules differently.

The court heard the appeal on May 8, 2007. Most observers believe that a decision will be announced this autumn, but it will not necessarily come before November 30, the date by which property tax levies for 2008 must be set. It could also be postponed until next year.

As your city or county makes its decision on the property tax levy for 2008, you will face one of four possibilities:

1. There has been no court decision. You will be limited to a one percent increase in your property tax levy. Note that the percentage increase in the implicit price deflator (IPD) will probably not be a constraint for jurisdictions with a population of 10,000 or more this year because we are forecasting that it will be greater than one percent. See the discussion on page x.
2. The court has ruled that Initiative 747 is constitutional. You will be limited to a one percent levy increase. As in option 1 above, the percentage increase in the implicit price deflator (IPD) will probably not be a constraint for jurisdictions with a population of 10,000 or more this year because we are forecasting that it will be greater than one percent. See the discussion on page x.
3. The court has ruled that Initiative 747 is **un**constitutional and the legislature has met in a special session and amended the language regarding the limit factor in RCW 84.55.005. Your levy will be limited by the new limit factor, which could be one percent or some other number.
4. The court has ruled that Initiative 747 is **un**constitutional and the legislature has not met or has met, but has not passed any amending legislation. The levy limit 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 entity has the option of making a finding of substantial need by passing an ordinance or resolution to do so with a vote of a majority plus one. It may then levy an amount up to a six percent increase.

We know, given the statements of the governor and various legislators, the chances of the limit factor remaining at six percent is infinitesimal. When the legislature does decide, it could be that the maximum limit factor will be set at one percent; it could be something higher (or lower).

So what do we do if the court finds Initiative 747 unconstitutional, but the legislature has set no new limit factor by the time we must set our levy?

If the Washington State Supreme Court upholds the lower court ruling and finds Initiative 747 unconstitutional and no new limit factor has been set, we recommend that you take a “wait and see” approach and limit the increase in your property tax levy to one percent or less. If you choose to levy a higher amount, there may be some chance that legislative action will require you to decrease your levy and refund taxes.

For jurisdictions with a population of less than 10,000, the assessor will automatically “bank” any difference between one percent and the maximum amount you could have levied **if** you have complied with the requirement in RCW 84.55.120. This statute requires your jurisdiction to pass a resolution or ordinance stating your levy increase over the prior year in dollar and percentage amounts. This is nothing new. You have been required to pass this resolution since the passage of Referendum 47 in 1997.

If your population is 10,000 or more, you should pass a resolution or ordinance with a majority plus one, making a finding of “future substantial need” for the difference between what you choose to levy (one percent or less) and six percent or some language referring to the “maximum amount you could have levied.” (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 and dollar amounts.)

Since we are discussing a situation in which Initiative 747 has been found unconstitutional, at the time you set the levy, the maximum levy increase for a finding of future substantial need will be six percent. However, when the legislature decides on a new number, it could also rule that six percent was never an option. If it chooses a new limit factor of, say, two percent, then you may only be able to “bank” the difference between two percent and what you actually levied. And, of course, if the legislature chooses one percent as the limit factor, then the finding of future substantial need will have gained you nothing.

We hope that possibility number 4 is not the one with which everyone will have to deal. However, if it is, the above ‘advice’ is the best we have to offer at this time. It is possible that, as time goes by, we might hear or think of better ideas. If so, we will let you know by writing about them on our Focus page at www.mrsc.org.

Initiative 960

On July 6, 2007, Tim Eyman turned in 314,566 signatures for Initiative 960. Because only 224,880 valid signatures are required, this initiative is almost certain to be on the November 2007 ballot.

This initiative does not directly affect local government. However, its passage would increase state government costs and could lower potential revenues. Negative effects on the state budget, of course, could have impacts on programs that benefit local governments.

The initiative has two main subjects. First, it would supplement the fiscal note process and requires that information on the cost to the taxpayers of any bill to increase taxes or fees be made available as the bill moves through the legislature

- For any bill introduced in the house or senate that raises taxes as defined by RCW 43.135.035 or increases fees, the Office of Financial Management (OFM) must expeditiously determine its cost to the taxpayers during the first 10 years, on a year-by-year basis. The results of this analysis must be

sent out in a press release by email to all news media, members of the legislature, and the public.¹ The press release must list the names of the sponsors and co-sponsors of the bill and their contact information. The press release must be maintained on the OFM web site.

- If any legislative committee schedules a hearing on a bill that raises taxes or fees, OFM must report the results of its most up-to-date 10-year cost analysis of the bill along with the date and place of the hearing and the names and contact information of the committee members in a press release sent by email to various parties as set out above.
- Each time a bill that increases taxes or fees is approved by a legislative committee or a simple majority of either house, OFM must redetermine its 10-year costs projection due to amendments or other changes and report the results in a press release giving the names and contact information for the legislators and how they voted. The press release must be sent to various parties as set out above.

Second, it would require, in certain circumstances, advisory votes for any legislative action raising taxes. Currently, RCW 43.135.035 requires a vote of the people to approve any tax increase that the legislature has adopted by a two-thirds vote in each house that results in an expenditure level exceeding the state expenditure limit.

If such a vote of the people on the legislative action does not take place, or if it is not referred to the voters by a referendum, then the tax increase must be subject to an advisory vote of the people.

¹Subsection 2(6) of the initiative defines “public” as “.....any person, group, or organization that signs up with the office of financial management to receive the public press releases by email.”