

City Council
September 30, 2025

2026 Operating Budget Balancing Discussion

Jay Burney, City Manager



Agenda For Tonight

1. What Guides Our Budget
2. Where Have We Been – 2025 Budget Summary
3. Where Are We - 2026 Budget (Assumptions and Current Gap)
4. Recommendation on Closing Gap
 - a. New Revenue or Reductions/Efficiencies
5. Revenue Options
6. Reduction Options
7. Scenarios For Closing The Gap
8. Next Steps
9. Budget Calendar



Public Safety

Ensure that all Olympians feel safe and have access to reliable, compassionate care.



Environmental Stewardship

Preserve and enhance Olympia's natural resources.



Organizational Excellence

Deliver exceptional services and programs that are responsive to the needs of our community.



Community Livability

Enrich quality of life and foster belonging for all who live, work, or spend time in Olympia.



Economy

Promote a diverse and growing economy with pathways to prosperity for everyone.



Well-Planned City

Plan for, construct, and maintain a built environment that ensures the wellbeing of current and future generations

Priorities, Performance, and Investment

January - May

June – August

July – December

Set Priorities

What Needs Our Attention?

- Community conversations
- Engage Olympia
- Mid-year City Council retreat

Measure Performance

How Are We Doing?

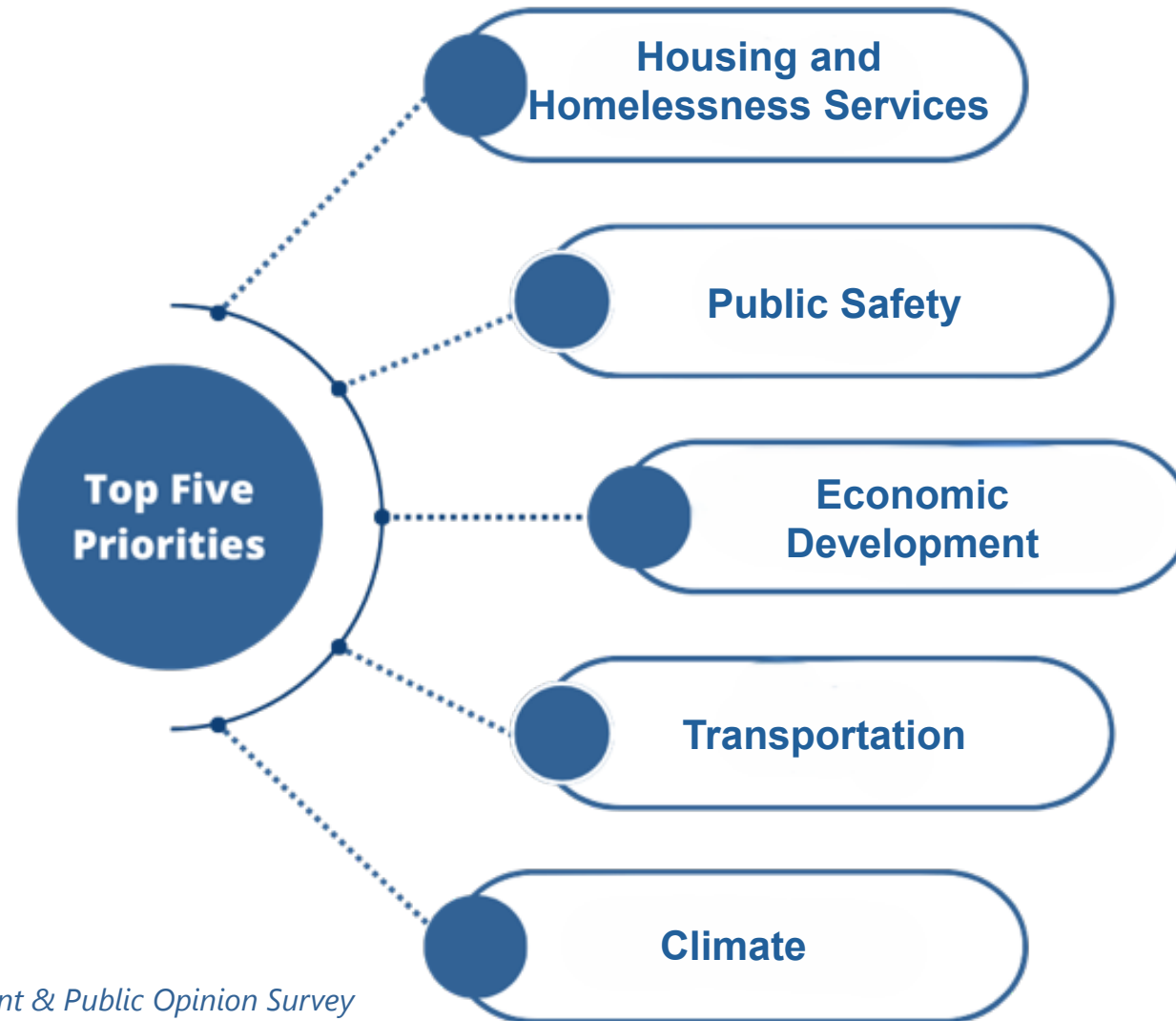
- Community survey
- Community indicators data
- Department data and analysis
- City work plans
- City Council retreat

Develop and Approve Budget

Where Do We Invest?

- **October** - Develop preliminary budget:
 - Operating Budget
 - Capital Facilities Plan
 - Utility rates
 - Impact fees
 - Revenue
- **November** – Public Hearings and balance the budget
- **December** – Budget adoption

Community Priorities



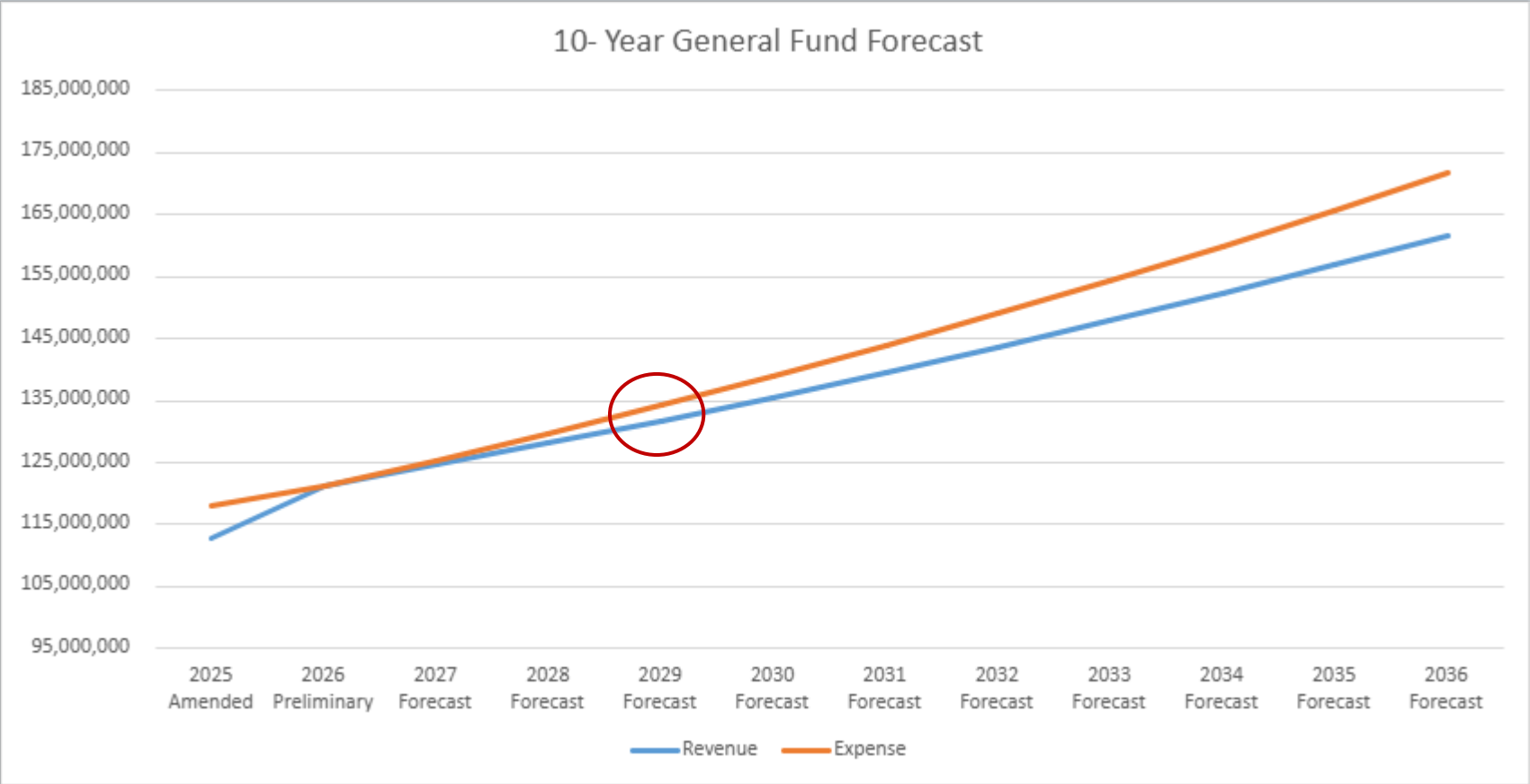
Source: 2023 Community Engagement & Public Opinion Survey

**General Fund
2025 Budget
Where We Have Been:**

GF Expense Reductions 2025 - Personnel

Permanent Reductions (17)	\$2,214,559
Other Staffing Changes	\$ 419,091
Delayed Hires (8)	\$ 590,084
• Community Service Officers (2)	
• Crime Analyst	
• Outreach Specialist – OPD	
• Finance Director	
• IT – GIS Program Manager	
• Information Specialist	
• Sr. HR Analyst	
TOTAL	\$3,223,734

Updated 10-Year Forecast



**2026 General Fund
Budget
Where Are We:**

Budget Assumptions

2.7% Wage adjustment for Independents, AFSCME, IUOE, Teamsters

Health Insurance Increase

- AWC Regence: 8.7%
- AWC Kaiser Permanente: 11.6%
- AWC Delta Dental: 4.3%
- Northwest Firefighter Trust Regence: 5.9%

Workers Compensation Rates (City and State annual rates):

- Fire increased to \$19,152 from \$13,543
- Office Staff increased to \$1,696 from \$1,120
- Field Staff increased to \$9,443 from \$6,108
- Police increase to \$14,459 from \$9,743

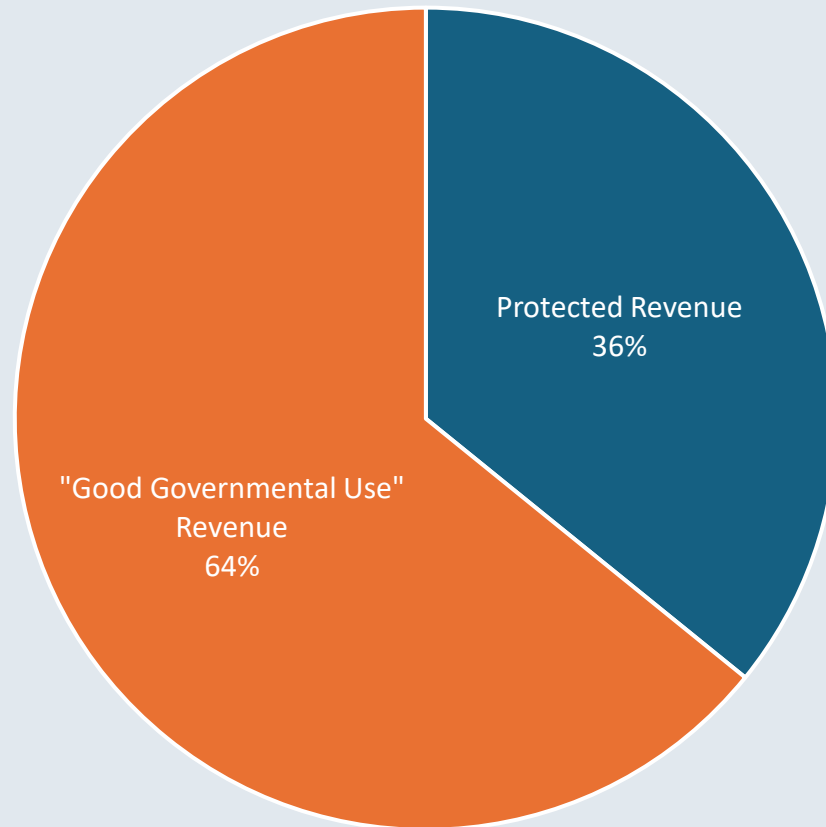
General Fund 2026 Budget Balancing Position

As of September 15, the General Fund deficit is \$6.5 million

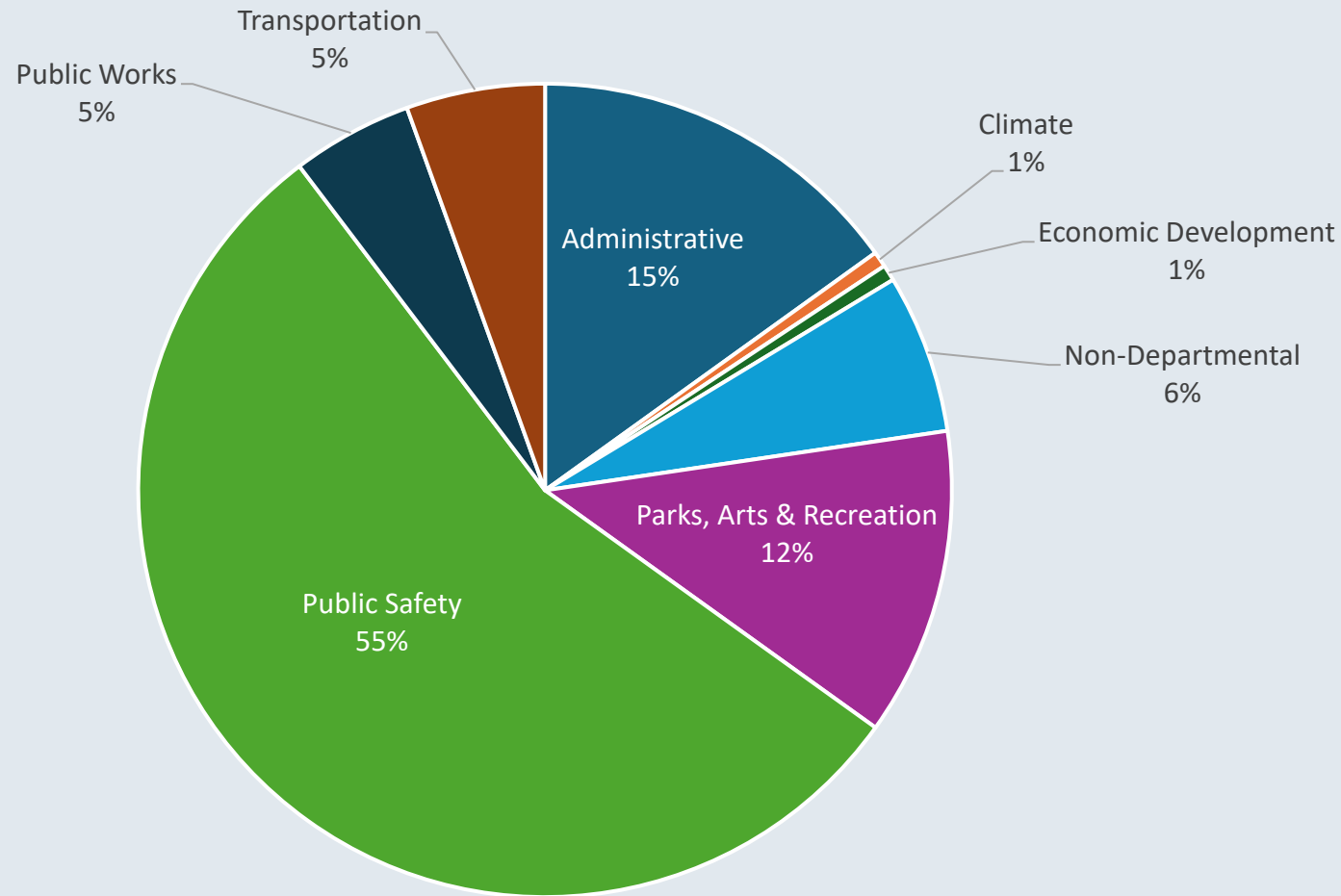
Options to Close:

- Expenditure Reductions
- New Revenues
- Use of Reserves
- Combination of the Above

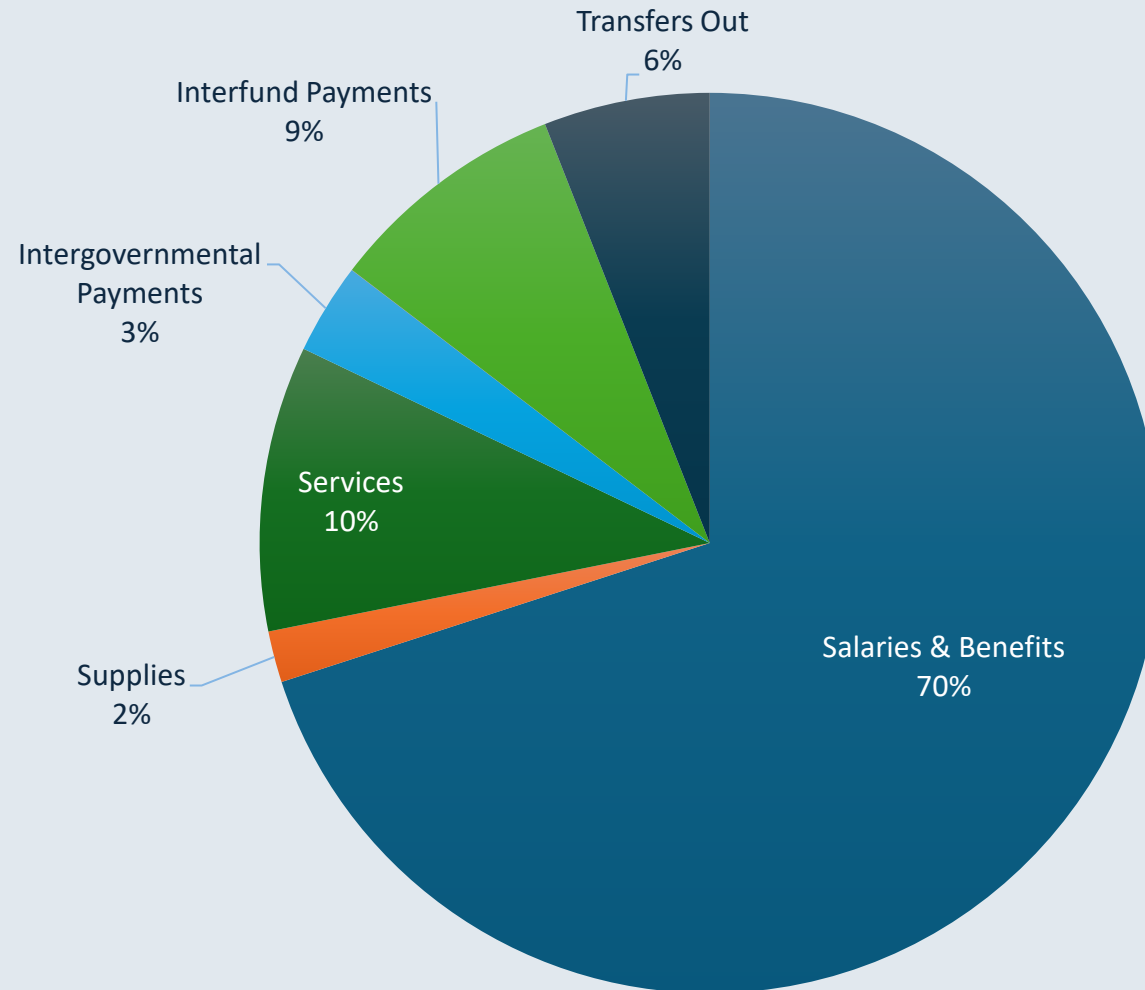
2026 General Fund Revenues



2026 General Fund Expenditures by Service



2026 General Fund Expenditures by Category



Revenue Options

B & O Tax Increase Option

Business & Occupation Tax Increase

- Increase the Retail tax rate from .001 to .002
- Threshold to \$500,000 an increase of \$1,900,000 in revenue
- Notification to Businesses with explanation of changes from Finance

B&O Tax Program

- City of Olympia B&O tax started in 1955 (Ord. 2923)
- Tax rates have not changed or increased in 75 years
- Annual B&O tax revenue \$8 M
- City B&O tax revenues help to fund:
 - Housing and homeless services
 - Public safety
 - Parks
 - Community Planning & Economic Development
 - Many other City functions



Olympia's mayor, Amanda B. Smith signed Ordinance 2923

A handwritten signature in black ink, which appears to read "Amanda B. Smith". Below the signature, the word "MAYOR" is printed in small, capital letters.

B&O Taxes

- Olympia B&O tax is based on business activity in Olympia – regardless of business location
- Businesses located outside the City providing goods or services here are subject to B&O tax
- For example
 - Goods delivered to your house from a Seattle bakery
 - Fence company from Tacoma refinishes your deck
 - The folding machine located on the 4th floor comes from a company in Fife
 - ... think destination based!
- There are seven classifications, each with a unique rate
- Many businesses file in multiple classifications
 - For example, a dealership may file in Retailing, Service, and Wholesaling

B&O Rates and Thresholds

City	Manufacturing	Retailing	Service & Other	Wholesale	Threshold
Kent	0.125%	0.100%	0.200%	0.200%	250,000
Lacey	0.100%	0.100%	0.200%	0.100%	20,000
Longview	0.150%	0.150%	0.200%	0.150%	100,000
Olympia	0.100%	0.100%	0.200%	0.100%	20,000
Ranier	0.200%	0.200%	0.200%	0.200%	20,000
Seattle	0.222%	0.222%	0.427%	0.222%	100,000
Shelton	0.200%	0.200%	0.200%	0.200%	20,000
Tacoma	0.110%	0.153%	0.400%	0.102%	250,000
Tenino	0.200%	0.200%	0.200%	0.200%	20,000
Tumwater	0.100%	0.100%	0.200%	0.100%	20,000
Yelm	0.100%	0.200%	0.200%	0.100%	20,000

Average B&O Tax

Business Classification	B&O Revenues	Taxpayers	Average Tax Paid	
Manufacturing	101,890	42	\$	2,426
Printing & Publishing	8,465	18	\$	470
Retailing & Retail Service	2,528,266	2,426	\$	1,042
Road Construction or Extraction	13,525	42	\$	322
Service & Other Activity	4,366,794	1,770	\$	2,467
Wholesaling	1,016,266	836	\$	1,216
* Zero Dollar Filers	-	3,813	\$	-
Total	8,035,206	8,947	\$	898

*Zero Dollar Filers submit a filing but owe \$0 in tax because their business reports less than \$20,000 in gross taxable income in Olympia

Average B&O Tax, cont'd

Type of Business	Number of Taxpayers	Average B&O Tax Paid	Portion of B&O Tax Paid by Classification
Automobile Dealers	20	31,200	Retail (74%), Wholesale (14%), Service & Other (12%)
Retirement & Assisted Living Facilities	31	1,100	Retail (3%), Service & Other (97%)
Restaurants and Other Eating Places	168	1,100	Retail (95%), Wholesale (3%), Service & Other (2%)
Traveler Accommodation	29	900	Retail (76%), Service & Other (24%)

Notes:

Number of Taxpayers is the count of all filers within the Type of Business

The average B&O Tax Paid reflects both large and small tax amounts

Impacts to B&O Revenue

Business Classification	Increase Retail Rate to .002	Raise Threshold to \$500k	Impact from Both Changes
Manufacturing	\$ -	\$ (3,134)	\$ (3,134)
Printing & Publishing	-	(823)	(823)
Retail Service	206,680	(41,655)	123,370
Retailing	2,321,586	(118,964)	2,083,658
Road Construction or Extraction	-	(2,260)	(2,260)
Service & Other Activity	-	(299,503)	(299,503)
Wholesaling	-	(43,340)	(43,340)
Total	2,528,266	(509,679)	1,857,969

City B&O Impacts

- City of Olympia B&O tax rate increase
- Impact based on a 5 million dollar business filing in two categories:

Category	Gross	Old Rate	New Rate	Increase
Retail	2,500,000	2,500	5,000	2,500
Service & Other	2,500,000	5,000	5,000	0
Total Olympia B&O	5,000,000	7,500	10,000	2,500

Additional Information:

Retail rate increasing from .001 to .002

Decision Point:

Option	Description of Change	Change	Revenue Impact
Option 1	Increase B&O Retailing Rate	From .001 to .002	+ \$2.5 M
Option 2	Raise Zero Dollar Filing Threshold	From \$20k to \$500k	- \$0.5 M
Option 3	Increase B&O Rate and Threshold	(see above)	+ \$1.8 M

What Are We Hearing – Engagement Efforts

Overall Sentiment

- Proposed 100% increase seen as excessive and poorly timed
- Cumulative impact with stacked costs (tariffs, state fees, property taxes, inflation, & other factors) make small business survival difficult
- Increase viewed as a "tipping point"
- Many feel Olympia is becoming a less favorable place to do business
- Mixed sentiment regarding the threshold change; those under \$500k threshold appreciate the relief

What Are We Hearing – Engagement Efforts

Anticipated Impacts

- Staffing & Wages: Reduced hours, layoffs, frozen wages
- Consumer Prices: Passed on costs to customers
- Growth & Expansion: Canceled or delayed projects and investments
- Community Impacts: Reduced business hours, risk of more vacancies, relocations to neighboring cities

What Are We Hearing – Engagement Efforts

Additional Considerations

- Respondent Suggestions: consider a smaller increase, share an increase across categories, gradually phase an increase, cut more city costs, delay changes
- Top 5 Reinvestment Priorities
 - Small business support & workforce training
 - Increased safety, focus on addressing homelessness
 - Online B&O payment system
 - Downtown vibrancy
 - Parking relief for businesses & patrons

Public Safety Sales Tax Increase

New Public Safety Sales Tax-HB 2015

- 2025 Legislature established two new funding mechanisms:
 - #1: 3-year \$100 million Grant program
 - #2: Councilmanic 0.1% local sales tax
- Enacting the new 0.1% sales and use tax brings Olympia's sales tax rate to 9.9%
- If enacted for 2026, estimating \$1.5 million in additional revenue
 - This is estimating only partial revenue for 2026
 - Estimating \$3 million revenue in a full budget year-2027
- 45-day review by Criminal Justice Training Center

Public Safety Sales Tax (HB 2015)

Funding Gaps (No Revenue Offsets):

Description	Amount
OPD Community Service Officer Program	\$ 300,000
OPD Walking Crisis Response Unit	300,000
OPD Expansion of Crisis Response Unit	1,000,000
OPD Intel Analyst & Familiar Face (2025 frozen positions)	300,000
OFD CARES Program	300,000
OFD Capital Equipment Replacement (fire apparatus & equipment)	500,000
Public Defense (Indigent Standards)	<u>600,000</u>
TOTAL	\$ 3,300,000

Public Safety Sales Tax (HB 2015)

Future Public Safety Gaps to Close:

Description	Amount
OFD Emergency Management	\$ 75,000
OPD Axon Contract for new technology and replacement	60,000
OFD Capital Replacement including apparatus, air packs, radios, bunker gear	1,300,000
OPD Assigned Patrol Vehicles	400,000
OPD Neighborhood Policing Expansion	300,000
OPD Walking Patrol Expansion (2.0 FTE)	300,000
OPD Equipment Replacement Fund	150,000
OFD Third Aid Unit	250,000
OPD Training Funds	50,000
OPD Domestic Violence Unit	<u>150,000</u>
TOTAL	\$ 3,035,000

Funding Options

2026 Revenue	Amount
HB 2015 Sales Tax Estimate (6 months)	\$1,500,000
HB 2015 Grants	500,000
Business and Occupation Tax rate and threshold increase	<u>1,900,000</u>
TOTAL	\$3,900,000

2027 Revenue	Amount
HB 2015 Sales Tax Estimate (12 months)	\$3,000,000
HB 2015 Grants	500,000
Business and Occupation Tax rate and threshold increase	<u>1,900,000</u>
TOTAL	\$5,400,000

Expenditure Reductions

Filter for General Fund Expenditure Reduction Options

- Maintains Programs/Services funded through past ballot measures or protected revenues – Community Commitments
- Looked at new programs/services added over last 5 years with no revenue offsets
- Avoided reduction options that would impact line level police officers and fire fighters
- Avoided reduction options in Public Works
 - \$1 million in reductions in 2025
- Avoided further significant cuts to support services (HR, IT, Finance)
 - Significant reductions in 2025
 - Comp Cities Study indicates we are behind

Expenditure Reductions Options*

Program	Possible Reduction	Specific Reduction
Communications Resources	\$477,000	Eliminate (3) FTE
Homeless Response (General Fund Portion)	\$306,000	Eliminate (2) FTE
Climate Program	\$576,000	Eliminate (3) FTE - Fully Eliminate Program
Restructure Equity Programs	\$390,000	Eliminate (2) FTE
Community Oversight of Law Enforcement/Auditor	\$260,000	Eliminate (1) FTE; General Professional Services (Auditor)
Council Support	\$153,000	Eliminate (1) FTE
Youth Council	\$10,000	Eliminate Program
Support Positions – City Manager’s Office	\$268,000	Eliminate (2) FTE
Legal Services	\$210,000	Eliminate (1) FTE
Housing	\$230,000	Eliminate (1) FTE

*Service Level Impacts are outlined in staff report attachment

Expenditure Reductions Options*

Program	Possible Reduction	Specific Reduction
Economic Development	\$554,000	Eliminate (2.25) FTE – Eliminate Program
Crisis Response Unit Expansion	\$1,200,000	Eliminate (7) FTE – Retain day shift, eliminate swing/night shift, downtown walking CRU
Familiar Faces Program	\$127,000	Eliminate (1) FTE
Designated Crisis Responder (OFD)	\$80,000	Cancel Contract
Basic Life Support Program (OFD) – Minus Revenues	\$1,000,000	Eliminate (16) FTE – Eliminate Program
Community Assistance Referral and Education Services (CARES) Program	\$126,000	Eliminate (1) FTE
Federal Lobbyist	\$75,000	Cancel Contract
State Lobbyist	\$71,000	Cancel Contract
Move Urban Forestry to Parks (GF Savings)	\$170,000	Would require Parks to absorb additional costs within current resources
TOTAL	\$6,300,000	

*Service Level Impacts are outlined in staff report attachment

Budget Balancing Scenarios

Budget Balancing Scenarios - \$6.5M Gap

Scenario 1

Approve New Public Safety Sales Tax and B&O Tax Change
\$1.5M Gap Remains
Explore Reductions to Close Gap

Scenario 3

Approve New B&O Tax Change
Do Not Approve New Public Safety Sales Tax
\$4.5M Gap Remains
Explore Reductions to Close Gap

Scenario 2

Approve New Public Safety Sales Tax
Do Not Approve B&O Tax Change
\$3.5M Gap Remains
Explore Reductions to Close Gap

Scenario 4

Do Not Approve Any New Revenues
\$6.5M Gap Remains
Explore Reductions to Close Gap

Public Safety Sales Tax - \$3M in new revenue
B&O Tax Change - \$2M in new revenues

Recommendations and Next Steps

Budget Calendar-City Council

Sept. 30, 2025: Budget; Consideration of Revenue Options

Oct. 14, 2025: *Study Session*: General Fund Balancing Update

Nov. 3, 2025: Rates, Fees, Special Revenue Presentation and first Public Hearing for the Operating Budget, and first and final Public Hearing for the Capital Facilities Plan and Transportation Improvement Plan

Nov. 18, 2025: Second Public Hearing Operating Budget

Nov. 24, 2025: Final Budget Balancing Presentation (Meeting on Zoom)

Dec. 9, 2025: First Readings: Ordinances

Dec. 16, 2025: Second Readings: Ordinances

Impacts to B&O Revenue

Change Current Rates at 0.001 to 0.0015

(no change to *Service and Other Activity* which is at 0.002)

Business Classification	Increase Rates to 0.0015	Raise Threshold to \$500k	Impact from both changes
Manufacturing	\$ 50,945	\$ (3,134)	\$ 46,244
Printing & Publishing	4,233	(823)	2,998
Retail Service	103,340	(41,655)	40,858
Retailing	1,160,793	(118,964)	982,347
Road Construction or Extraction	6,763	(2,260)	3,373
Service & Other Activity	-	(299,503)	(299,503)
Wholesaling	508,133	(43,340)	443,123
Total	\$ 1,834,207	\$ (509,679)	\$ 1,219,441