

## **Council Questions Related to the City Budget**

- 1. In May and June of 2011 the City held a series of focus group meetings related to city finances. One conclusion from those sessions was that Olympia needs to do a better job of telling its story. What actions are recommended in the current budget process to assure that the public and key stakeholders understand the story?**

- 2. Can we expect new revenues in 2012 or '13 from the City's entrepreneurial initiatives, including the fire training center?**

*The business plan is currently being developed. A minimal amount is included in the 2013 projections*

- 3. What impact will the *Patient Protection and Affordable Care Act* have on the cost of City benefits over the next few years?**

*This is a difficult question to answer because the Federal government has not provided guidelines for most of the act. Here is what we do know and have included in our estimates. Beginning in 2013 we must include the employer provided health benefits (medical only) on the employee W2 (to be distributed January 2013). In addition \$1 per person insured (including spouses and children) goes to the Patient Centered Outcomes Research Account. In 2014 the amount goes to \$2 per person insured. In 2018 the employer will have to pay for "highly compensated insurance plans". The plan for current employees does not meet this definition; however the plan for post retirement benefits for LEOFF 1 employees is a "highly compensated plan" and our actuary has estimated the cost to the city will be approximately \$150,000/year for both police & fire.*

*There are many other questions and financial impacts. However, the earliest the Supreme Court will rule on the act is June 28<sup>th</sup>.*

4. Recognizing that different categories of businesses pay different rates of B&O tax, how much revenue is being generated in each category?

*Figures for 2011 are:*

Tax Class	Amt
Road Construction or Extraction	\$ 11,000.00
Retailing	\$ 1,596,000.00
Wholesaling	\$ 524,000.00
Manufacturing	\$ 133,000.00
Printing & Publishing	\$ 19,000.00
Service & Other	\$ 1,910,000.00
Retail Service	\$ 46,000.00

*\*definitions of each class are included in Appendix A*

*Currently service based businesses are at 2/10% and all other businesses are at 1/10%*

5. Is Olympia currently collecting local B&O tax on medical marijuana operations?

*Yes, but most of them have been set up as non-profits and would be tax exempt.*

6. Does Olympia currently exempt the following activities from the local B&O tax:

- a. The sale and distribution of liquor YES – RCW 66.08.120
- b. The sale and distribution of motor vehicle fuels YES – RCW 82.36.440
- c. Horse racing YES – RCW 82.04.350
- d. Boxing matches? YES – RCW 82.36.440

**Is this exemption within the City's control? How does revocation of each exemption affect revenues?**

*These are all either preempted or exempted by the state.*

7. Does Olympia provide a business start-up exemption from local B&O taxes?

*NO – all businesses must be taxed at a uniform rate RCW 35.21.710*

8. Does our local B&O tax treat medical service providers differently if they are affiliated with a religious organization?

*If they are a non-profit, then they are exempt from tax. OMC 5.02040*

**9. For both the public and private utility taxes, what is the breakdown of revenues received from businesses, residents, governments, and others?**

*Private Utility taxes are a tax on the business, so residents do not pay taxes directly. Here is a breakdown of 2011 revenues by type of tax.*

<b>Classification</b>	
Electric Utility Tax - General Fund	\$ 2,515,934.77
Electric Utility Tax - Parks & Sidewalks	\$ 1,509,560.85
Electric Utility Tax - CFP	\$ 503,186.95
Gas Utility Tax - General Fund	\$ 779,758.27
Gas Utility Tax - Parks & Sidewalks	\$ 779,758.27
Gas Utility Tax - CFP	\$ 155,951.66
Electric Utility Tax - General Fund	\$ 1,904,865.68
Electric Utility Tax - Parks & Sidewalks	\$ 1,142,737.34
Electric Utility Tax - CFP	\$ 380,913.22
	<b>\$ 9,672,667.01</b>
CITY TAX - WATER	\$ 1,039,877.92
CITY TAX - SEWER	\$ 1,464,099.57
CITY TAX - GARBAGE	\$ 866,141.25
CITY TAX - STORMWATER	\$ 436,489.31
	<b>\$ 3,806,608.05</b>

*For our public utilities the percentage of customers by service is listed below:*

	Waste Resources	Water	Sewer	Storm	Overall
Multi-Family	1.8%	3.9%	4.0%	1.5%	2.9%
Commercial	8.2%	9.0%	8.7%	7.1%	8.3%
Government	0.5%	1.7%	0.9%	0.5%	0.9%
Residential	89.6%	85.4%	86.5%	90.9%	87.9%

*The rough percentage then would be 91% Residential and 9% Commercial/ Government*

**10. What is the cost of providing School Resource Officers in public schools?**

*Total Cost: \$234,820*

*Revenue from School district: 78,000*

*Net Amount: 156,821*

*This is the cost for 2 full time officers. When the school year is over the officer fills in for over time and emphasis patrols.*

**11. With regard to Police operations, how have the new records management and field reporting system affected efficiencies?**

*The new records management system has not been implemented so it is difficult to predict the cost savings.*

**12. What is the net cost of providing recreational programming for youth?**

*Generally speaking all programs cover their direct cost except – Summer Kids in the Parks. The net budget for this program is \$10,300*

Program	Operating Expenses	Revenue	Total Net Costs
Athletics	223466	168942	54524
Youth	210852	144525	66327
Teen	95944	49125	46819
Outdoor	170045	66800	103245
Classes	186483	180400	6083
<b>Total Recreation</b>	<b>886790</b>	<b>609792</b>	<b>276998</b>

**13. Other than the potential sale of bonds to support the repair of the Washington Center, are annual debt service obligations expected to change over the next few years?**

*No, below is the general obligation debt service for the next 10 years:*

2,448,449.08	2012
2,440,912.08	2013
2,438,224.08	2014
2,432,686.08	2015
2,426,749.08	2016
2,420,411.08	2017
2,413,674.08	2018
2,411,536.08	2019
2,314,659.29	2020
2,508,869.78	2021

**14. What options are there for the Municipal Court to generate more revenue through fees or other methods?**

*The State sets the fees for misdemeanors and in general the state receives 50% of the fees collected. Probation is one exception. Each court may set their fees for probation. We try to keep our fees in line with other jurisdictions.*

*The City does turn over delinquent accounts to a collection agency. However the % collected is low.*

**15. What Administrative Service activities can be efficiently out-sourced and what cost savings can be achieved through this method?**

*There are only a few services that could not be contracted out—cash management and investments, City Clerk, public disclosure/records and the issuance of debt. Other services could be contracted out such as IT, payroll, human resources, negotiations, accounting, probation, prosecution, and legal. However, I do not know that you would save any money. In recent years we have eliminated contracts because we could provide the service at a lower cost. If you tell us what services you are considering we can do a cost analysis.*

**16. How do Olympia B&O rates compare with other cities?**

***Business (B&O) Taxes***

*Thirty-eight cities (14%) impose the local business tax, otherwise known as the local B&O. Five cities have rates higher than the statutory limit of 0.0002 that were voter-approved or grandfathered if in place prior to January 1, 1982. Some cities tax business categories other than the traditional manufacturing, retail, services, and wholesale categories.*

<b>Business (B&amp;O) taxes</b>		
	<b>Number of cities imposing tax</b>	<b>Average</b>
Manufacturing	37	0.00148
Retail	36	0.00160
Services	36	0.00200
Wholesale	37	0.00150

**Business & Occupation Tax  
Comparison of Cities with a population of 35,000 to 100,000**

Source: Association of Washington Cities

<b>City Name</b>	<b>Manufacturing Rate</b>	<b>Retail Rate</b>	<b>Services Rate</b>	<b>Wholesale Rate</b>	<b>Rate for Nonprofit</b>
Auburn					
Bellingham	0.0017	0.0017	0.0044	0.0017	
Bremerton					
Edmonds					
Federal Way					

Kennewick					
Kent					
Kirkland					
Lacey		0.001	0.002		Exemptions
Longview	0.001	0.001	0.002	0.001	Registration Only
Lynnwood					
Marysville					
Olympia	0.001	0.001	0.002	0.001	Exemptions
Pasco					
Puyallup					
Redmond					
Renton					
Richland					
Yakima					
Shoreline					
Lakewood					
Sammamish					
Spokane Valley					

## 17. How does Olympia's Utility Tax Rate compare to other jurisdiction?

**2010 Tax**  
**Population: 35,000-60,000**  
Source: Association of Washington Cities

City Name	Natural Gas Rate Voted		Electricity Rate Voted		Telephone Rate Voted		Cable	Waste Resources	Drinking Water	Waste Water	Storm Water
Kirkland	6%		6%		6%		6%	10.50%	10.50%	10.50%	7.50%
Lacey	6%		6%		6%		No	6%	6%	6%	6%
Longview	6%		6%		6%		6%	7%	7%	7%	7%
Lynnwood	4%		4%		6%		4%	6%	4%	4%	4%
Marysville	5%		5%		6%		No	No	6%	6%	6%
Olympia	9%	Yes	9%	Yes	9%	Yes	5%	10%	12%	10%	10%
Pasco	8.50%	Yes	8.50%	Yes	8.50%	Yes	8.50%	8.50%	8.50%	8.50%	8.50%
Puyallup	5%		5%		6%		3.80%	8%	8%	8%	8%
Redmond	6%		6%		6%		No	Yes	No	No	
Richland	8.50%	Yes	8.50%	Yes	8.50%	Yes	7.50%	10.50%	10.50%	10.50%	8.50%
Shoreline	6%		6%		6%		1%	6%		No	6%

### Utility Taxes

A utility tax is a tax levied on the gross operating revenues of a utility within the boundaries of a city as well as the city's own utilities. Cities may levy the tax at a rate of

6% on electric, natural gas, and telephone, unless a high rate is voter approved. There is no limit for the rate on the city's own utilities.

One hundred and eighty-eight cities report imposing a utility tax. Eight cities impose a voter approved utility tax above the statutory limit of 6% on electric, natural gas, and/or telephone. Ninety-eight cities provide a discount, rebate and/or exemption for certain populations, such as low income, people with disabilities, or seniors.

Utility tax				
	Number of cities imposing tax	Average	High	Low
Natural gas	121	5.93%	14.75%	2%
Electricity	170	5.87%	14.75%	2%
Telephone*	173	5.94%	8.50%	3%
Water	145	8.35%	36%	1.5%
Sewer	135	8.31%	36%	1.5%
Storm drainage	60	7.19%	20%	1%
Cable TV	111	5.55%	10%	1%
Garbage	130	7.44%	40%	2%

\*Some cities impose a different rate for cellular phones

Portion of the Total Tax from Various Utilities			
Private		Public	
Electric	35%	Drinking Water	28%
Gas	15%	Waste Water	39%
Telecommunications	50%	Storm Water	12%
		Waste Resources	21%

**18. Does the City have an assistance program for low income? If so, please describe.**

*Yes, the City established lifeline rates for both utilities & local improvement districts (LIDs)*

Lifeline Rates:

- *Low income, disabled or over 62 years old.*
- *215 accounts*
  - Annual discount*
  - \$ 20,400 Drinking Water only*
  - \$116,400 All utilities, including drinking water*
- *50% reduction in fees*

- Based on combined household (50% of median family income T/County)

People in household	Income
1	\$24,500
2	\$28,000
3	\$31,500
4	\$35,000

**19. Could the City ask voters to change the 2% voted utility tax from capital to operation expenses?**

*Legally yes, but the proceeds from the tax is substantially committed through 2016*

*Use of Parks portion of voted utility tax*

2012 Budget	\$1,210,500	2006 Bonds (final payment 2016)
	<u>315,500</u>	2011 BANS (final 2021)
	\$1,526,000	Total Debt Services
	422,352	Parks Maintenance on Capital Projects
	<u>281,550</u>	Parks Planning & Project Management
	\$2,229,902	Total Budget
	\$2,205,513	Revenue Estimate

**20. Are there any funds in the Capital Facilities Plan that could be redirected to the General Fund Operating Budget?**

Yes, \$1,000,000 Utility Tax  
275,000 Motor Vehicle Fuel Tax



## **APPENDIX A**

### **B&O Tax Definitions of Categories**

❖ “Manufacturer” “to manufacture” “processing for hire”:

1. “Manufacturer” means every person whom, either directly or by contracting with others for the necessary labor or mechanical services, manufactures for sale or for commercial or industrial use from the person’s own materials or ingredients any products. When the owner of equipment or facilities furnishes, or sells to the customer prior to manufacture, materials or ingredients equal to less than twenty percent (20%) of the total value of all materials or ingredients that become a part of the finished product, the owner of the equipment or facilities will be deemed to be a processor for hire and not a manufacturer. A business not located in this City that is the owner of materials or ingredients processed for it in this City by a processor for hire shall be deemed to be engaged in business as a manufacturer in this City.

2. “To manufacture” means all activities of a commercial or industrial nature wherein labor or skill is applied, by hand or machinery, to materials or ingredients so that as a result thereof a new, different or useful product is produced for sale or commercial or industrial use, and shall include:

- a. the production of special made or custom made articles;
- b. the production of dental appliances, devices, restorations, substitutes, or other dental laboratory products by a dental laboratory or dental technician; and
- c. crushing and/or blending of rock, sand, stone, gravel, or ore; and
- d. the producing of articles for sale, or for commercial or industrial use from raw materials or prepared materials by giving such materials, articles, and substances of trade or commerce new forms, qualities, properties or combinations including, but not limited to, such activities as making, fabricating, processing, refining, mixing, slaughtering, packing, aging, curing, mild curing, preserving, canning, and the preparing and freezing of fresh fruits and vegetables.

“To manufacture” shall not include the production of computer software if the computer software is delivered from the seller to the purchaser by means other than tangible storage media, including the delivery by use of a tangible storage media where the tangible storage media is not physically transferred to the purchaser.

- ❖ "Retail Service": "Retail service" shall include the sale of or charge made for personal, business, or professional services including amounts designated as interest, rents, fees, admission, and other service emoluments however designated, received by persons engaging in the following business activities:

1. Amusement and recreation services including but not limited to golf, pool, billiards, skating, bowling, swimming, bungee jumping, ski lifts and tows, basketball, racquet ball, handball, squash, tennis, batting cages, day trips for sightseeing purposes, and others, when provided to consumers. "Amusement and recreation services" also include the provision of related facilities such as basketball courts, tennis courts, handball courts, swimming pools, and charges made for providing the opportunity to dance. The term "amusement and recreation services" does not include instructional lessons to learn a particular activity such as tennis lessons, swimming lessons, or archery lessons.
2. Abstract, title insurance, and escrow services;
3. Credit bureau services;
4. Automobile parking and storage garage services;
5. Landscape maintenance and horticultural services but excluding (i) horticultural services provided to farmers and (ii) pruning, trimming, repairing, removing, and clearing of trees and brush near electric transmission or distribution lines or equipment, if performed by or at the direction of an electric utility;
6. Service charges associated with tickets to professional sporting events; and
7. The following personal services: Physical fitness services, tanning salon services, tattoo parlor services, steam bath services, turkish bath services, escort services, and dating services.
8. The term shall also include the renting or leasing of tangible personal property to consumers and the rental of equipment with an operator.

- ❖ "Sale at retail" or "Retail sale":

1. "Sale at retail" or "retail sale" means every sale of tangible personal property (including articles produced, fabricated, or imprinted) to all persons irrespective of the nature of their business and including, among others, without limiting the scope hereof, persons who install,

repair, clean, alter, improve, construct, or decorate real or personal property of or for consumers, other than a sale to a person who presents a resale certificate under RCW [82.04.470](#) and who:

- a. Purchases for the purpose of resale as tangible personal property in the regular course of business without intervening use by such person; or
  - b. Installs, repairs, cleans, alters, imprints, improves, constructs, or decorates real or personal property of or for consumers, if such tangible personal property becomes an ingredient or component of such real or personal property without intervening use by such person; or
  - c. Purchases for the purpose of consuming the property purchased in producing for sale a new article of tangible personal property or substance, of which such property becomes an ingredient or component or is a chemical used in processing, when the primary purpose of such chemical is to create a chemical reaction directly through contact with an ingredient of a new article being produced for sale; or
  - d. Purchases for the purpose of consuming the property purchased in producing ferrosilicon which is subsequently used in producing magnesium for sale, if the primary purpose of such property is to create a chemical reaction directly through contact with an ingredient of ferrosilicon; or
  - e. Purchases for the purpose of providing the property to consumers as part of competitive telephone service, as defined in RCW [82.04.065](#). The term shall include every sale of tangible personal property which is used or consumed or to be used or consumed in the performance of any activity classified as a "sale at retail" or "retail sale" even though such property is resold or utilized as provided in (a), (b), (c), (d), or (e) of this subsection following such use.
  - f. Purchases for the purpose of satisfying the person's obligations under an extended warranty as defined in subsection (7) of this section, if such tangible personal property replaces or becomes an ingredient or component of property covered by the extended warranty without intervening use by such person.
2. "Sale at retail" or "retail sale" also means every sale of tangible personal property to persons engaged in any business activity that is taxable under OMC [5.04.060](#) (G).
  3. "Sale at retail" or "retail sale" shall include the sale of or charge made for tangible personal property consumed and/or for labor and services rendered in respect to the following:
    - a. The installing, repairing, cleaning, altering, imprinting, or improving of tangible personal property of or for consumers, including charges made for the mere use of facilities in respect thereto, but excluding charges made for the use of coin-operated laundry facilities when such

facilities are situated in an apartment house, rooming house, or mobile home park for the exclusive use of the tenants thereof, and also excluding sales of laundry service to nonprofit health care facilities, and excluding services rendered in respect to live animals, birds and insects;

b. The constructing, repairing, decorating, or improving of new or existing buildings or other structures under, upon, or above real property of or for consumers, including the installing or attaching of any article of tangible personal property therein or thereto, whether or not such personal property becomes a part of the realty by virtue of installation, and shall also include the sale of services or charges made for the clearing of land and the moving of earth excepting the mere leveling of land used in commercial farming or agriculture;

c. The charge for labor and services rendered in respect to constructing, repairing, or improving any structure upon, above, or under any real property owned by an owner who conveys the property by title, possession, or any other means to the person performing such construction, repair, or improvement for the purpose of performing such construction, repair, or improvement and the property is then reconveyed by title, possession, or any other means to the original owner;

d. The sale of or charge made for labor and services rendered in respect to the cleaning, fumigating, razing or moving of existing buildings or structures, but shall not include the charge made for janitorial services; and for purposes of this section the term "janitorial services" shall mean those cleaning and caretaking services ordinarily performed by commercial janitor service businesses including, but not limited to, wall and window washing, floor cleaning and waxing, and the cleaning in place of rugs, drapes and upholstery. The term "janitorial services" does not include painting, papering, repairing, furnace or septic tank cleaning, snow removal or sandblasting;

e. The sale of or charge made for labor and services rendered in respect to automobile towing and similar automotive transportation services, but not in respect to those required to report and pay taxes under chapter 82.16 RCW;

f. The sale of and charge made for the furnishing of lodging and all other services, except telephone business and cable service, by a hotel, rooming house, tourist court, motel, trailer camp, and the granting of any similar license to use real property, as distinguished from the renting or leasing of real property, and it shall be presumed that the occupancy of real property for a continuous period of one month or more constitutes a rental or lease of real property and not a mere license to use or enjoy the same. For the purposes of this subsection, it shall be presumed that the sale of and charge made for the furnishing of lodging for a continuous period of one month or more to a person is a rental or lease of real property and not a mere license to enjoy the same;

g. The sale of or charge made for tangible personal property, labor and services to persons taxable under (a), (b), (c), (d), (e), and (f) of this subsection when such sales or charges are for property, labor and services which are used or consumed in whole or in part by such persons in the performance of any activity defined as a "sale at retail" or "retail sale" even though such property, labor and services may be resold after such use or consumption. Nothing contained in this subsection shall be construed to modify subsection (1) of this section and nothing contained in subsection (1) of this section shall be construed to modify this subsection.

4. "Sale at retail" or "retail sale" shall also include the providing of competitive telephone service to consumers.

5. "Sale at retail" or "retail sale" shall also include the sale of canned software other than a sale to a person who presents a resale certificate under RCW [82.04.470](#), regardless of the method of delivery to the end user, but shall not include custom software or the customization of canned software.

6. "Sale at retail" or "retail sale" shall also include Public Road Construction, which is the sale of or charge made for labor and services rendered in respect to the building, repairing, or improving of any street, place, road, highway, easement, right of way, mass public transportation terminal or parking facility, bridge, tunnel, or trestle which is owned by a municipal corporation or political subdivision of the state or by the United States and which is used or to be used primarily for foot or vehicular traffic including mass transportation vehicles of any kind.

7. "Sale at retail" or "retail sale" shall also include the sale of or charge made for an extended warranty to a consumer. For purposes of this subsection, "extended warranty" means an agreement for a specified duration to perform the replacement or repair of tangible personal property at no additional charge or a reduced charge for tangible personal property, labor, or both, or to provide indemnification for the replacement or repair of tangible personal property, based on the occurrence of specified events. The term "extended warranty" does not include an agreement, otherwise meeting the definition of extended warranty in this subsection, if no separate charge is made for the agreement and the value of the agreement is included in the sales price of the tangible personal property covered by the agreement.

8. "Sale at retail" or "retail sale" shall also include Government Contracting, which is the sale of or charge made for labor and services rendered in respect to the constructing, repairing, decorating, or improving of new or existing buildings or other structures under, upon, or above real property of or for the United States, any instrumentality thereof, or a county or city housing authority created pursuant to chapter 35.82 RCW, including the installing, or attaching of any article of tangible personal property therein or thereto, whether or not such personal property becomes a part of the realty by virtue of installation.

9. "Sale at retail" or "retail sale" shall not include the sale of services or charges made for the clearing of land and the moving of earth of or for the United States, any instrumentality thereof, or a county or city housing authority. Nor shall the term include the sale of services or charges made for cleaning up for the United States, or its instrumentalities, radioactive waste and other byproducts of weapons production and nuclear research and development. (This is reported under the service or other classification).

10. "Sale at retail" or "retail sale" shall not include the sale of or charge made for labor and services rendered for environmental remedial action. (This is reported under the service and other classification.)

- ❖ "Sale at wholesale" "wholesale sale": "Sale at wholesale" or "wholesale sale" means any sale of tangible personal property which is not a retail sale, and any charge made for labor and services rendered for persons who are not customers, in respect to real or personal property and retail services, if such charge is expressly defined as a retail sale or retail service when rendered to or for consumers. Sale at wholesale also includes the sale of telephone business to another telecommunications company for the purpose of resale, as contemplated by RCW [35.21.715](#).
- ❖ "Service": shall include the sale of or charge for personal, business or professional activities, including amounts designated as internet, rent, fees, admission, and other service emoluments however designated, received by persons engaging in business activities not included in the designation of "retail service," "sale at retail," or "sale at wholesale." By way of example only, "service" includes but is not limited to legal and engineering services, consulting, and appraisal services.