



Finance Committee

Continue Discussions on Long Term Revenue Strategies

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Title

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Recommended Action

Committee Recommendation:

Not referred to a committee.

City Manager Recommendation:

Move to provide direction to staff on revenue strategies to pursue for the 2015 budget.

Report

Issue:

Discussion of ideas on long term revenue strategies.

Staff Contact:

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Presenter(s):

Jane Kirkemo, Administrative Services Director

Background and Analysis:

During the Budget Process staff discussed several potential revenue options to be evaluated for the 2015 budget:

1. Utility Tax on Cable
2. Business and Occupation Tax Revisions
3. Legislative Changes to Transportation Benefit Districts (TBD)
4. Voter approved TBD increases
5. Levy Lid Lifts
6. Local Improvement Districts (LIDs)
7. Councilmanic Debt Issuances
8. One-Time Revenues

The committee discussed the first 2 items at the April committee meeting. The Legislature did not take any action on TBDs during the legislative session so \$20 is the maximum a TBD can charge without a vote of the people. For the “one-time revenue” staff was anticipating a one-time increase in the Real Estate Excise Tax (REET) from the sale of the Capital Mall and Top Foods. However, one sale was a name change only and the other was a leasehold change. Therefore, the City will not receive any REET from these transactions. The committee will have a discussion on debt issuance later this month. The remaining revenue options will be discussed throughout the remainder of the year.

During the April meeting the committee gave staff direction to move ahead with the utility tax on cable as a part of the Capital Facilities Plan (CFP). Staff contacted Comcast about our intent to implement the tax. Following a presentation of the CFP there will be an opportunity for Comcast to comment on the tax, but there will be no public hearing. The tax is on the utility, not the customer, although the utility typically passes the tax on to the customer. Staff’s recommendation is for the tax to be effective the last quarter of 2014 with the first collections in January 2015. The committee also agreed the revenue would go to the major maintenance in the CFP.

Committee member Jones made a proposal for a coordinated set of changes to Olympia's B & O tax. Olympia’s B & O tax has not been substantially updated since 2004 and this collection of adjustments will simplify rates and structures, support small local businesses, and generally “tune up” Olympia’s approach to the B & O tax.

The proposal included:

1. Raising the threshold for businesses from the current \$20,000 gross revenue to \$200,000. Businesses with less than \$200,000 in total annual revenue would be exempt from the local B & O tax.
2. Non-profit businesses would continue to be exempt from all local B & O taxes unless their annual gross receipts exceed \$50 million. These larger non-profit businesses would pay the same rate as for-profit groups beginning with the first dollar.
3. Religious organizations engaged in the provision of health care would not have a special exemption (OMC 5.04.110.F.2). All non-profit organizations would be treated equally.
4. To encourage new businesses, Olympia would eliminate the \$25 new business registration fee. The one-time \$25 B & O tax registration fee and the \$30 annual business license fee remain unchanged.
5. To assist businesses with the local B & O tax and to improve business compliance and fairness, Olympia would create a new full-time code compliance officer position with responsibility for business licensing and the local B & O tax.

Staff is meeting with representatives from Tacoma (they implemented the nonprofit changes last year) to discuss a messaging strategy and potential revenue. The committee recommended implementing the changes as a part of the 2015 budget process. (This is quarterly revenue so only 3 quarters would be received in 2015.) Since a major reason for the change is tax equity, staff recommends any additional revenues in the first year go to one-time capital in the CFP; thereafter the money would be budgeted in the operating budget.

Neighborhood/Community Interests (if known):

- Neighborhoods will be involved in the budget process and we will reach out to the business community to discuss any fee/tax/rate increases.
- Some residents may complain the utility tax on cable is not fair since it is not on dish or other satellite options.
- The nonprofit hospitals will complain about the B & O tax because they have always been exempt and they offer a significant amount of “charity” services to the community.

Options:

Following public input the Council could:

- 1) Delay the increases
- 2) Stagger the effective dates
- 3) Choose to amend the recommendation for increase

Financial Impact:

N/A