



## City Council

### An Ordinance of the City of Olympia, Washington Relating to the Business and Occupation Tax and Amending Olympia Municipal Code Section 5.04.110

**Agenda Date:** 10/21/2014  
**Agenda Item Number:** 4.C  
**File Number:** 14-0996

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**Type:** ordinance **Version:** 2 **Status:** Passed

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#### **Title**

An Ordinance of the City of Olympia, Washington Relating to the Business and Occupation Tax and Amending Olympia Municipal Code Section 5.04.110

#### **Recommended Action**

##### **Committee Recommendation:**

Finance Committee recommended approval and the additional funds should go to the Capital Facilities Budget to be used for major maintenance in 2015.

##### **City Manager Recommendation:**

Move to approve on Second Reading an Ordinance Amending Olympia Municipal Code Section 5.04.110 relating to Business and Occupation Tax (*Attachment #1*).

#### **Report**

##### **Issue:**

Should the City of Olympia remove the exemption for religious organizations and medical services non-profits (medical services as defined in RCW 70.41)?

##### **Staff Contact:**

Jane Kirkemo, Administrative Services Director, 360.753.8499

##### **Presenter(s):**

Jane Kirkemo, Administrative Services Director

#### **Background and Analysis:**

On October 14, 2014, Council approved on first reading and forwarded to second reading an ordinance distributed that that evening (*attachment #1*). The ordinance clarified Council's intent regarding closing the City's Business and Occupation Tax loophole for hospitals and medical services non-profits. During discussion, Councilmembers commented on the decline in charity care at local hospitals due to the Affordable Care Act and the regional nature of Olympia hospital / medical services facilities that depend on infrastructure and other services provided by the City.

***[Same Background Information as October 14, 2014 staff report]***

One of the Olympia City Council's major goals is to develop a sustainable budget. The City Council and more specifically, the Finance Committee evaluated the City's major revenues over the last two years. The Committee worked with the Economic Development Council (EDC), Chamber of Commerce and other groups to understand the impact that tax increases, changes, loopholes and scofflaws have on the business environment in Olympia. The Committee's goal is to develop an environment that is attractive to new businesses while retaining current businesses.

Late last year, the Committee worked in tandem with the EDC to reach out to both of Olympia's hospitals - one for-profit and one nonprofit. In addition, staff began talking to other jurisdictions regarding the Business and Occupation (B & O) tax. Early in discussions staff and the Committee both learned of a national and local trend of nonprofits purchasing (absorbing) for-profit medical practices, thereby creating a significant loss in revenue. Because of this trend and equity reasons, the Cities of Tacoma and Bellingham, Washington eliminated the exemption from B & O taxes for nonprofit hospitals.

Providence Hospital (nonprofit) is a major employer for the region and is well established in the community. The hospital serves a five-county area. However; the City of Olympia solely provides the infrastructure to serve both hospitals with roads, street lights, signals, utilities, police, fire, and emergency medical services.

Under State law, Providence is exempt from property taxes (unless the land is undeveloped). By contrast, Capital Medical Center (for-profit) paid \$675,000 in property taxes last year.

Under the City's Business and Occupation code, Providence is exempt from taxation under two different sections - religious organizations operating a hospital or clinic and nonprofit organizations exempt from federal income tax under Section 501(c)(3). Since Providence is exempt under the nonprofit status, the Committee decided it was redundant to keep the exemption for religious organizations operating a hospital or clinic.

The amount a business pays in B & O taxes is not subject to public disclosure and if the business is a nonprofit exempt from the tax the City does not have the authority to review their financial records. In conversations with the Hospital they volunteered that the amount of tax they would pay on their gross income minus deductions and exemptions would be \$375,000 per year.

Obviously Providence does not want to pay the B & O tax. The hospital proposed partnering with the City in lieu of paying the tax. Staff and representatives of the Hospital spent several weeks discussing possible partnerships. During the September Finance Committee meeting Providence presented a partnership option for some mental health services in downtown.

The Committee thought it was important to implement the tax rather than begin a partnership because the proposed partnership was for new programs that are not core services for the City. The proposed partnership was not flexible, and required a decision process that included the hospital and City. In contrast, the B & O tax is simple and easy for the public to understand. It is equitable and calculated based on a formula. It can be used for core services and allows the most flexibility for the City Council. The B & O tax supports the Council's goal to build a sustainable budget.

During the September 23 Council meeting, Finance Committee Chair Jim Cooper reported the Committee's recommendation to the full Council. The Council supported the changes. Mayor Buxbaum moved to make the changes effective immediately and include the revenue in the 2015 general fund budget. The full Council determined the City needs the revenues to support existing core services. The Council directed staff to prepare an ordinance for the October 14<sup>th</sup> Council meeting.

**Options:**

1. Approve on 2<sup>nd</sup> reading recommended ordinance (attachment #1).
2. Approve on 2<sup>nd</sup> reading the ordinance adopted on October 14 (attachment #2).
3. Make no changes to the code.

**Financial Impact:**

The current B & O tax for service-based businesses is 2/10 of 1% (a business with \$1 million in revenue would pay \$2,000). Because the law does not allow the City to analyze the financial records of nonprofits, it is difficult to estimate the impact of eliminating the exemption. The tax is received quarterly so with an effective date of November 1, and using the tax amount of \$375,000 volunteered by the hospital, the City should receive approximately \$340,000 of revenue in 2015.