FISCAL SUSTAINABILITY TASK FORCE

Revenue Overview
July 24, 2013

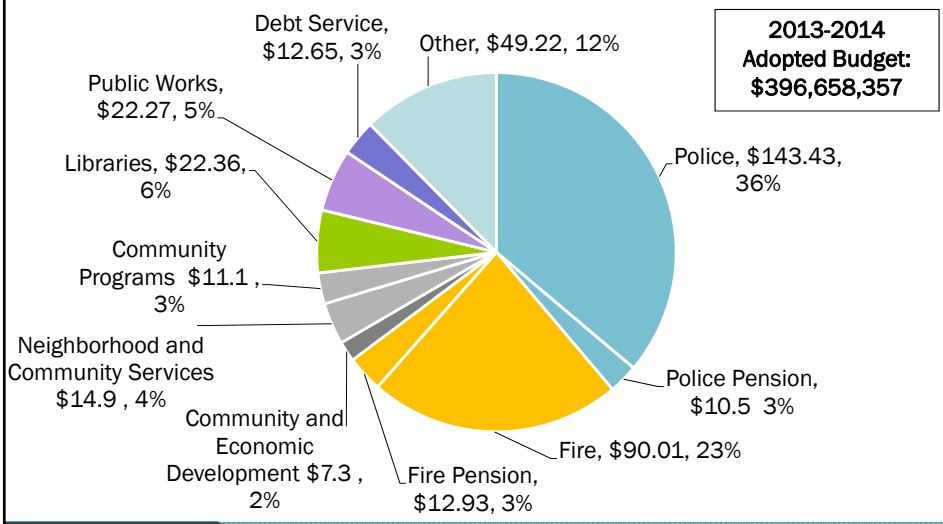
Meeting 3

OVERVIEW

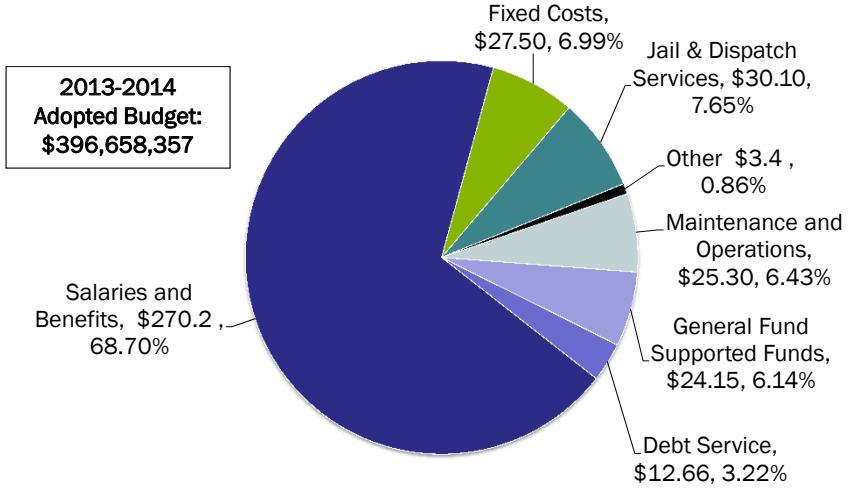
- Meeting 2 Review
- General Fund Revenue Overview
- Major Tax Revenues
  - Sales Tax
  - Property Tax
  - Gross Earnings Tax
  - Business & Occupation Tax (B&O)
- Other Revenues

MEETING 2
EXPENSE OVERVIEW

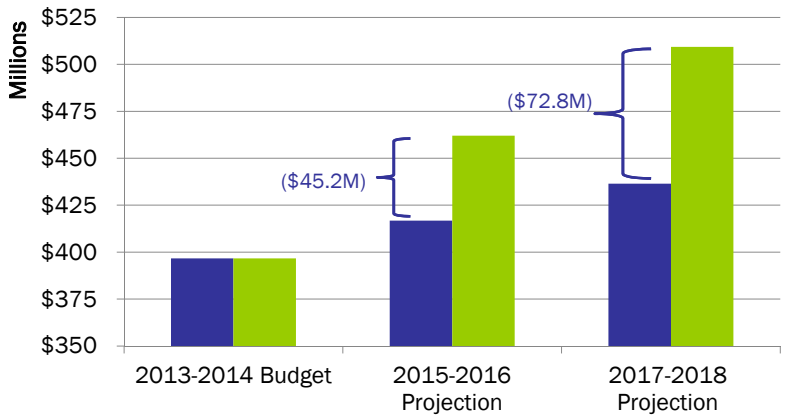
2013-14 ADOPTED GENERAL FUND BUDGET



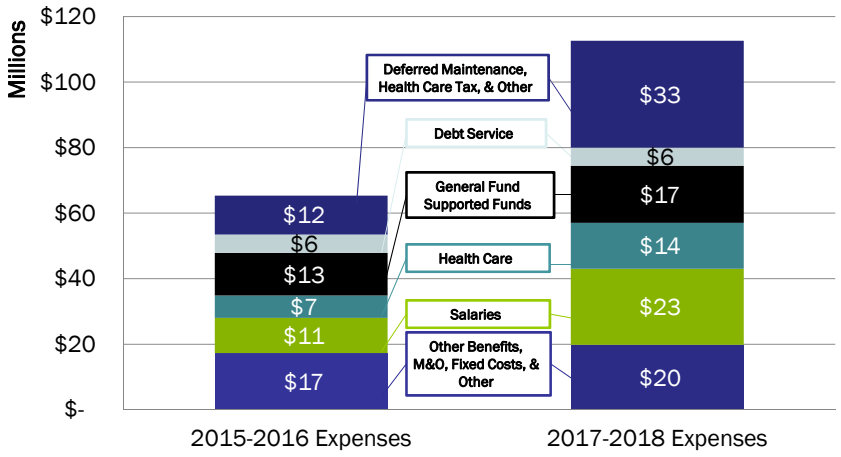
2013-14 ADOPTED GENERAL FUND BUDGET



2015-2018 BUDGET GAPS



COST DRIVERS IN 2015-2018 PROJECTION



Increases from 2013-2014	2015-2016	2017-2018
Expenses	$65.32	$112.62
Revenues	$20.10	$39.81
Gap	$(45.22)	$(72.80)

SUMMARY

2015-2018 Average Annual Growth	
Revenues	2.3%
Expenditures	6.3%

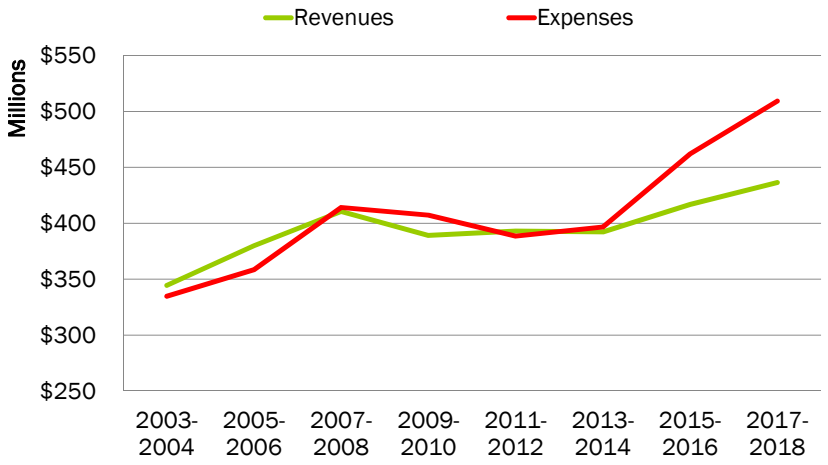
- Projection assumes existing service levels
- Cost drivers include:
  - Personnel Costs – Salaries, healthcare, and retirement benefits
  - Debt Service
  - General Fund Supported Funds (Streets, Traffic Enforcement, Mountain Rail, Permitting, Parking, and Public Assembly Facilities)
  - Deferred Maintenance
- Some costs are more easily changed than others
- One time reductions are not sustainable

REVENUE OVERVIEW

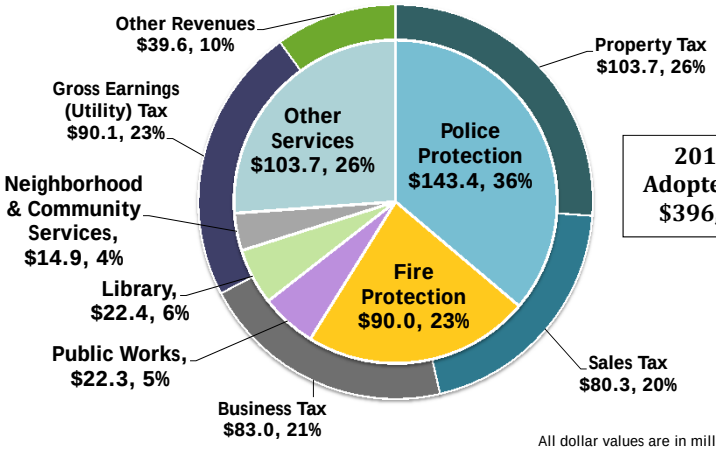
GENERAL FUND REVENUE OVERVIEW

- Revenues are regulated at the state, county and municipal levels
- Directives that most commonly govern the City of Tacoma's revenues include:
  - Washington State Constitution
  - Revised Code of Washington (RCW)
  - Washington Administrative Code (WAC)
  - Tacoma Municipal Code (TMC)
- In Washington, cities must be given the authority by the state to collect taxes

REVENUE AND EXPENDITURE HISTORY



2013-14 ADOPTED GENERAL FUND REVENUES & EXPENDITURES



2013-2014 Adopted Budget: $396,658,357

All dollar values are in millions.

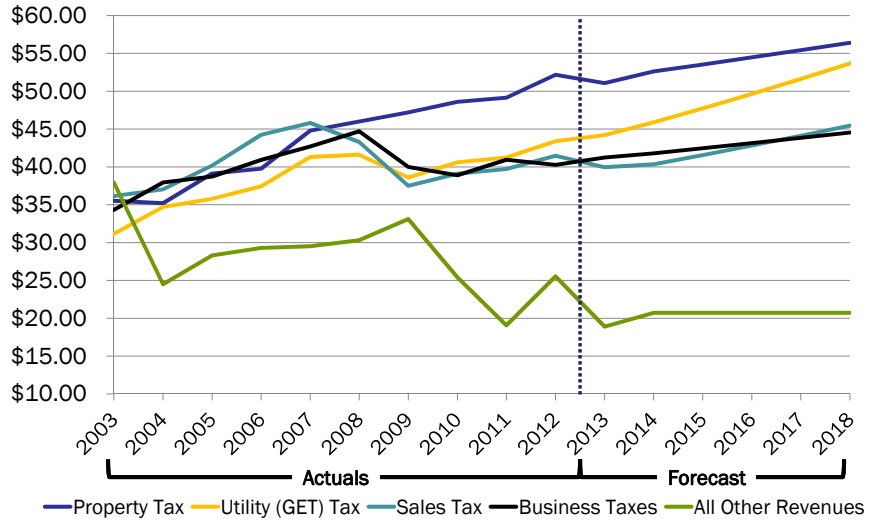
2013-14 BIENNIUM REVENUE BREAKDOWN

Revenue Source	Biennial Budget (Millions)	Percent of Total
Property Taxes	$103.67	26.1%
Business Taxes	83.02	20.9%
Sales Taxes	80.28	20.2%
Gross Earnings (Utility) Taxes	90.07	22.7%
Other Revenues	39.62	10.0%
Total	**$396.66**	**100.0%**

OTHER REVENUE BREAKDOWN
($39.62M OR 10% OF GENERAL FUND REVENUES)

Revenue Source	Biennial Budget (In Millions)	Percent of Total
Intergovernmental Revenues	$21.58	54.5%
Licenses and Permits	6.18	15.6%
Other Taxes	4.07	10.3%
Miscellaneous Revenues	3.62	9.1%
Charges for Services	2.45	6.2%
Fines and Forfeits	1.72	4.3%
Total	**$39.62**	**100.00%**

GENERAL FUND REVENUE BY SOURCE (IN MILLIONS)



REVENUE ASSUMPTIONS IN 2015-2018 FORECAST

Revenue Source	Projected Yearly Increases
Property Tax	1.75%
Sales Tax	3.03%
B&O Tax	1.6%
Utility Tax	4.0%
Other	Flat or small increases

SALES TAX

SALES TAX DESCRIPTION

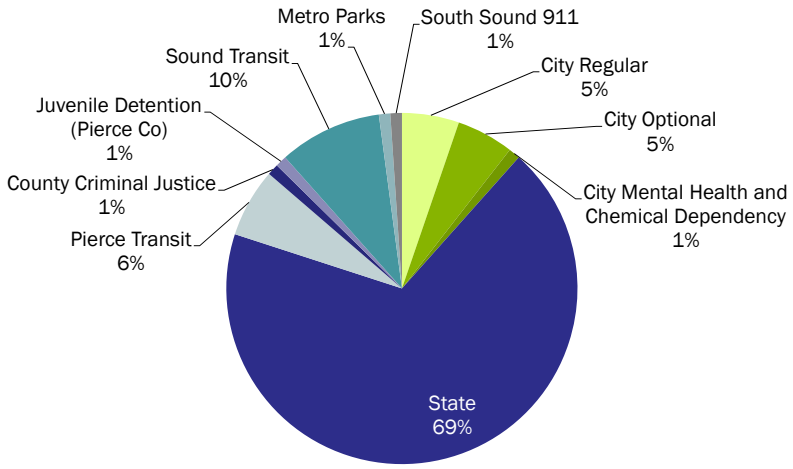
- Sales Tax is charged on the purchase of goods and some services
  - 20.2% of General Fund revenues in 2013-2014
  - Projected to increase at a rate of 3.03% annually 2015-2018
  - Dependent on purchasing behavior of consumers
  - Food and prescription drugs are exempt
- Current City Sales Tax Rate
  - 1.0% for General Fund purposes
  - 0.1% for Mental Health and Chemical Dependency
- Additional Sales Tax Authority (not implemented)
  - Local Criminal Justice Sales Tax of 0.1%, could raise approximately $8 million in 2015-2016, auto sales are exempt from this tax

SALES TAX BREAKOUT

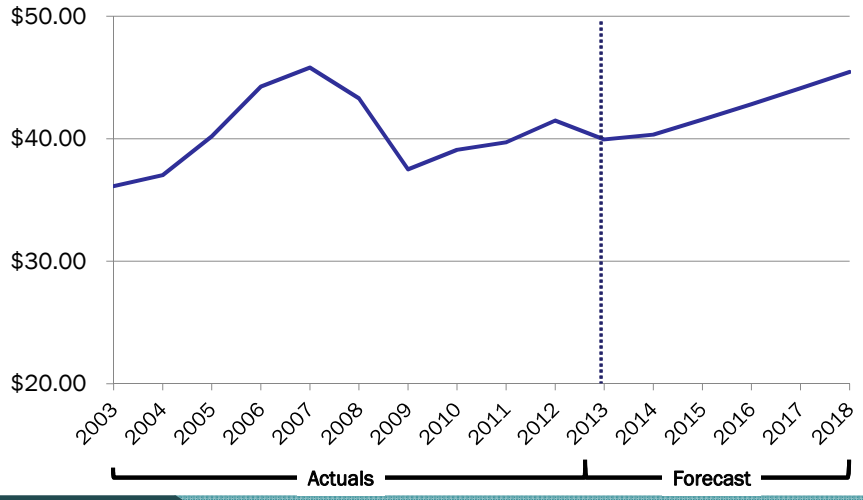
Sales Tax Breakdown	
City Regular	0.5%
City Optional	0.5%
City Mental Health and Chemical Dependency (added 7-2012)	0.1%
State	6.5%
Pierce Transit (0.3% added in 2003)	0.6%
County Criminal Justice (% dist. to City based on Population)	0.1%
Juvenile Detention (Pierce Co)	0.1%
Sound Transit (0.5% added in 2009)	0.9%
Metro Parks	0.1%
South Sound 911 (added in 2011)	0.1%
Total Sales Tax	9.5%

Auto and rental car purchases are subject to an additional 0.3% State Tax. Certain other purchases are subject to additional taxes.

SALES TAX BREAKOUT (PERCENTAGE OF TOTAL SALES TAX)



SALES TAX REVENUE (IN MILLIONS)



CITY OF TACOMA SALES TAX RATE AND ALTERNATIVES

Type of Tax	Current Rate	Maximum Rate	2013 Budgeted Revenues	Process for Increasing
Sales – Regular	0.5%	0.5%	$ 18,142,941	State Legislative action
Sales - Optional	0.5%	0.5%	$ 18,142,941	State Legislative action
General Fund Total			**$ 36,285,882**	
Mental Health Sales Tax	0.1%	0.1%	$4,156,098	State Legislative action
Additional Authority (not implemented)				
Local Criminal Justice	0%	0.1%	N/A	Simple majority voter approval

SALES TAX RATE COMPARISON (%)

City	City Tax Rate	Mental Health	Local Criminal Justice	Total City Tax Rate	Other Taxes	Total Tax Rate
Bellevue*	1.0	-	-	1.0	8.5	9.5
Federal Way*	1.0	-	-	1.0	8.5	9.5
Seattle*	1.0	-	-	1.0	8.5	9.5
Tacoma	*1.0*	*0.1*	-	*1.1*	*8.4*	*9.5*
Fife	1.0	-	-	1.0	8.4	9.4
Lakewood	1.0	-	-	1.0	8.4	9.4
Puyallup	1.0	-	-	1.0	8.4	9.4
Olympia*	1.0	-	-	1.0	7.8	8.8
Spokane*	1.0	-	0.1	1.1	7.6	8.7
Vancouver*	1.0	-	-	1.0	7.4	8.4

*Mental Health and Chemical Dependency Sales Tax charged by County

PROPERTY TAX

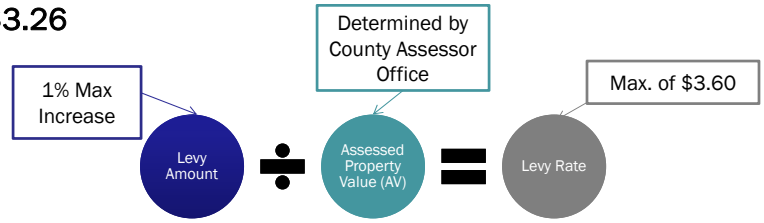
PROPERTY TAX DESCRIPTION

- Washington State Revenue Guide: "Washington property tax is the most complicated in the nation"
- Property tax levy is charged to property owners based on the assessed value of the property.
- The rate charged by the City is determined by dividing total property tax collections (levy amount) by the total assessed value.

- Property tax revenues are 26.1% of the General Fund

PROPERTY TAX LIMITATIONS

- Two primary restrictions on property taxes
  - The levy amount can not increase more than 1% annually plus increased revenues from new construction.
  - Tacoma is authorized by state law to collect or "levy" a property tax up to a maximum rate of $3.60 per thousand dollars of assessed value.
- The 2013 regular property tax rate for the City of Tacoma is $3.26



EXAMPLES OF AV, LEVY AMOUNT, LEVY RATE RELATIONSHIP

Levy Amount: 1% Max Increase

Assessed Value: Determined by County Assessor Office

Levy Rate: Max. of $3.60

2013 Levy and Rates

$52.24 Million ÷ $16.01 Billion = $3.26/ $1000 AV

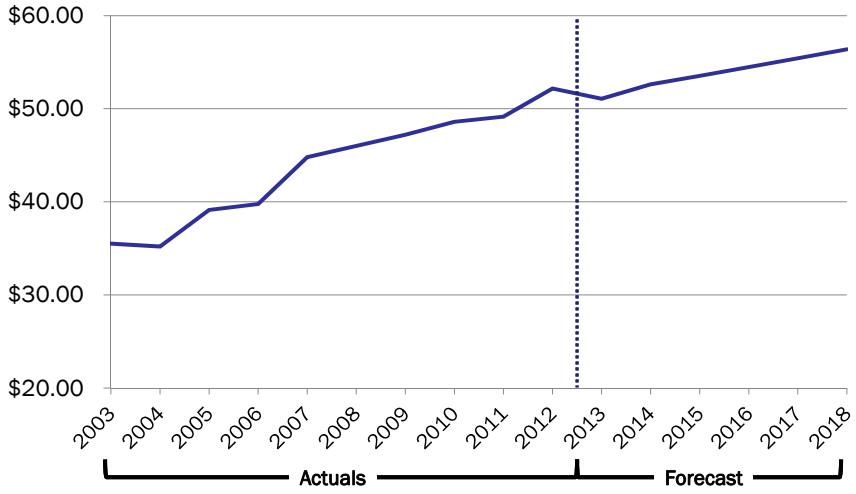
AV Increase of $1.5B or 9%

$52.24 Million ÷ $17.51 Billion = $2.98/ $1000 AV

AV Decrease of $1.5B or 9%

$52.24 Million ÷ $14.51 Billion = $3.60/ $1000 AV

PROPERTY TAX REVENUES (IN MILLIONS)



PROPERTY TAX EXEMPTIONS

- Types of Exemptions:
  - Government Agencies (State, Federal, and Local). Including:
    - Schools
    - Ports
    - Parks
  - Non-Profit Organizations
  - Other exemptions include less than $500 market value, home improvement, senior and disabled, rehabilitated dwellings, historical designation, etc.
- Determined by the State and County
- 38.4% of the total property area in Tacoma is exempt
- Increases the rate paid by other property owners (less assessed value to spread the levy amount over)

ADDITIONAL PROPERTY TAX AUTHORITY

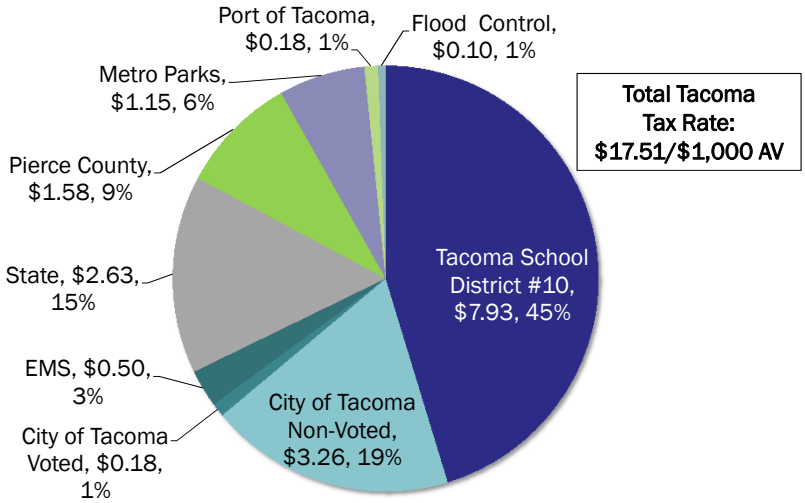
- Voted Levy Lid Lifts (authority to increase revenue above 1% Max) – requires a simple majority public vote
  - Levy Lid Lifts can be increased for unlimited or limited durations
    - Example: Limited to bond debt service payment timeframes
- $3.60 Maximum Rate still applies

EXAMPLE OF LEVY LID LIFT INCREASE

Levy Lift of $0.10 per $1,000 of AV: Total Revenue

Levy Lift of $0.10 per $1,000 of AV: Avg. Property Owner Impact

PROPERTY TAX RATE 2013 PER $1,000 OF 2012 ASSESSED VALUE (AV)



2013 PROPERTY TAX RATE (PER 1,000 AV) COMPARISON

	City Rate*				Other Taxing Authorities	Total Rate
	Regular	EMS	Special Levy	City Total		
Lakewood	$1.44	$0.50	$0.00	$1.94	$15.95	$17.89
Tacoma	*3.26*	*0.50*	*0.18*	*3.94*	*13.57*	*17.51*
Federal Way	1.42	0.30	0.00	1.72	14.42	16.14
Spokane	2.92	0.50	0.92	4.34	10.76	15.10
Fife	1.60	0.50	0.00	2.10	12.78	14.88
Puyallup	1.86	0.50	0.20	2.56	11.86	14.42
Vancouver	3.17	0.00	0.00	3.17	10.95	14.12
Seattle**	3.15	0.30	0.14	3.59	10.18	13.77
Olympia	2.56	0.40	0.24	3.20	10.35	13.55
Bellevue**	1.18	0.30	0.00	1.48	10.9	12.38

*City levy rates vary due to various taxing districts
**Regular levy includes a temporary lid lift

PROPERTY TAX RATE BY AVG. PROPERTY VALUE (2013) COMPARISON

	Total Levy Rate	2012 Avg. AV	2012 Avg. Property Tax
Lakewood	$17.89	$192,041	$3,436
Tacoma	*17.51*	*160,249*	*2,806*
Federal Way	16.14	213,000	3,438
Spokane	15.10	133,340	2,013
Fife	14.88	162,073	2,412
Puyallup	14.42	186,724	2,693
Vancouver	14.12	198,500	2,803
Seattle**	13.77	359,000	4,943
Olympia	13.55	173,157	2,346
Bellevue**	12.38	451,000	5,583

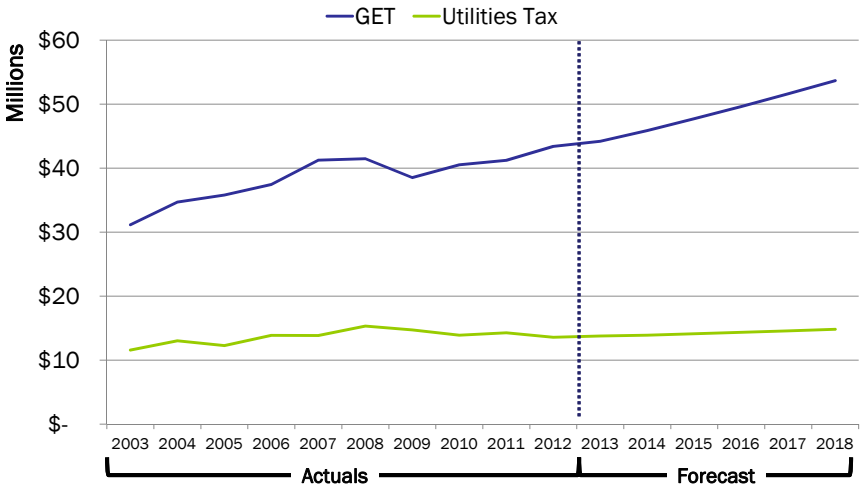
*Levy rates vary due to various taxing districts
**Regular levy includes a temporary lid lift

GROSS EARNINGS AND UTILITY TAX

GROSS EARNINGS TAX

- Gross Earnings taxes are levied on the gross operating revenues earned by private and public utilities operations
  - Revenues from Public Utilities are included in the Gross Earnings Revenues
  - Revenues from Private Utilities are in the Business Tax revenues
- Gross Earnings from Public Utilities are projected to grow at 4.0%
- Gross Earnings Tax for Public Utilities are 22.7% of General Fund revenues
- 6% on gross earnings for Power, natural gas and telephone
- 8% on gross earnings for Water, Wastewater, Surface Water, Solid Waste, CLICK!, and Rail

GROSS EARNINGS AND UTILITY TAX (IN MILLIONS)



ADDITIONAL GROSS EARNINGS TAX AUTHORITY

- City Charter Restrictions
  - At Charter maximum of 8% for Water, Wastewater, Surface Water, Solid Waste, CLICK!, and Rail
  - Below Charter maximum rate at 6% for power, natural gas and telephone
    - Requires a vote of the people to set the gross earnings tax above the maximum rate 8%
- State Restrictions
  - No State maximum for Water, Wastewater, Surface Water, Solid Waste, CLICK!, and Rail
  - At State maximum rate of 6% for power, natural gas and telephone
    - Requires a vote of the people to set the rate above the 6% maximum.

TAX RATES PER UTILITY

Utility	Current Rate	2013 Revenues	City Charter Limits	State Limit
Public Utilities (Gross Earnings Tax)				
Power	6%	$ 23,347,043	8% by COT Charter	6%
Water	8%	5,425,639	8% by COT Charter	N/A
Wastewater	8%	4,774,000	8% by COT Charter	N/A
Surface Water	8%	2,170,000	8% by COT Charter	N/A
Solid Waste	8%	4,503,000	8% by COT Charter	N/A
Rail	8%	1,996,225	8% by COT Charter	N/A
CLICK!	8%	1,973,258	8% by COT Charter	N/A
Private Utilities (Business and Occupation Tax)				
Telephone/Cellular	6%	$ 5,084,205	8% by COT Charter	6%
Cable TV	8%	3,038,289	8% by COT Charter	N/A
Natural Gas	6%	3,244,224	8% by COT Charter	6%
Private Solid Waste	8%	50,000	8% by COT Charter	N/A

UTILITY TAX COMPARISON

	Power	Water	Waste Water	Storm Water	Solid Waste	Natural Gas	Phone	Cable
Tacoma	6%	8%	8%	8%	8%	6%	6%	8%
Bellevue	5%	5%	5%	5%	4.50%	5%	6%	4.80%
Olympia	10%	12%	10%	10%	10%	9%	9%	n/a
Seattle	6%	15.54%	12%	11.50%	11.50%	6%	6%	10%
Puyallup	5%	8%	8%	8%	8%	5%	6%	3.80%
Lakewood	5%	6%	6%	6%	6%	5%	6%	6%
Spokane	6%	20%	20%	20%	6%	6%	6%	6%
Fife	6%	6%	6%	6%	6%	6%	6%	6%
Federal Way	7.75%	n/a	n/a	7.75%	7.75%	7.75%	7.75%	7.75%
Vancouver	6%	20%	20%	20%	20%	6%	6%	n/a

PROPOSED GROSS EARNING TAX INITIATIVE

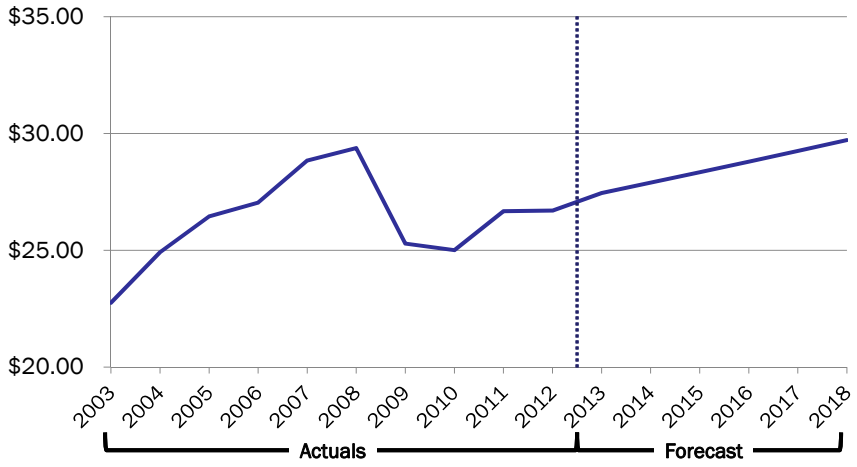
- 2% Earnings Tax on Utility Companies
  - Gas, electric and phone
- Long term dedicated funding
  - $10M to $11M annually
- Sole purpose for street maintenance, safety and new construction

BUSINESS AND OCCUPATION TAX

BUSINESS AND OCCUPATION TAX (B&O)

- B&O tax is measured on gross receipts or gross income.
- Several exemptions, deductions and credits are provided for certain business activities or sources of income, including a $250,000 gross income threshold before tax is due.
- B&O Tax is projected to grow at 1.6%
- B&O revenues are 14% of General Fund Revenues

BUSINESS AND OCCUPATION TAX REVENUES – WITHOUT UTILITY TAXES (IN MILLIONS)



ADDITIONAL BUSINESS AND OCCUPATION TAX AUTHORITY

- Statutory Authority
  - Washington Constitution Article XI section 12 and RCW 35.22.280(32) first class cities gives municipalities the authority to license for revenue.
- Council may approve an increase in B&O tax rates up to a maximum of 0.2% for any classifications that are currently under the 0.2% rate. The ordinance must include a referendum procedure as provided in RCW 35.21.706.
- An increase of B&O tax rates above the maximum of 0.2% requires a vote of the people.

BUSINESS AND OCCUPATION TAX RATES

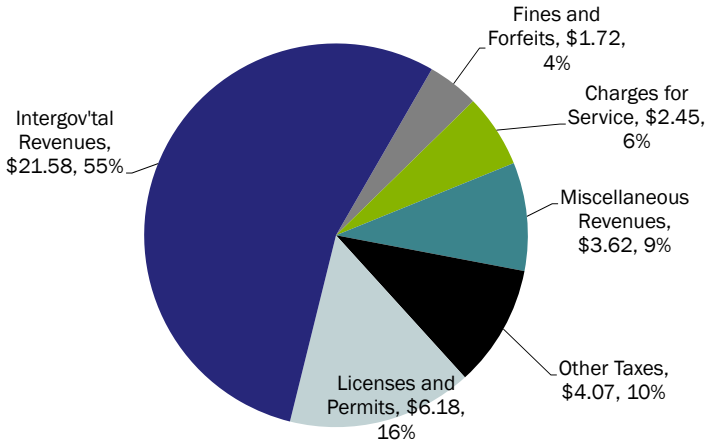
B&O Category	Current Rate	2013 Budgeted Revenues	Limits - State of WA	Additional Revenue at 0.2%
Wholesaling	0.102%	$ 4,509,077	0.2%	$ 4,332,250
Manufacturing	0.11%	3,250,214	0.2%	2,659,266
Retailing	0.153%	6,054,300	0.2%	1,859,818
Retail Services	0.4%	448,000	Above maximum, rate grandfathered	n/a
Service and Other	0.4%	13,463,719	Above maximum, rate grandfathered	n/a
Grain	0.1%	149,000	0.2%	149,000
	Total	**27,874,310**		9,000,334

BUSINESS AND OCCUPATION TAX COMPARISON

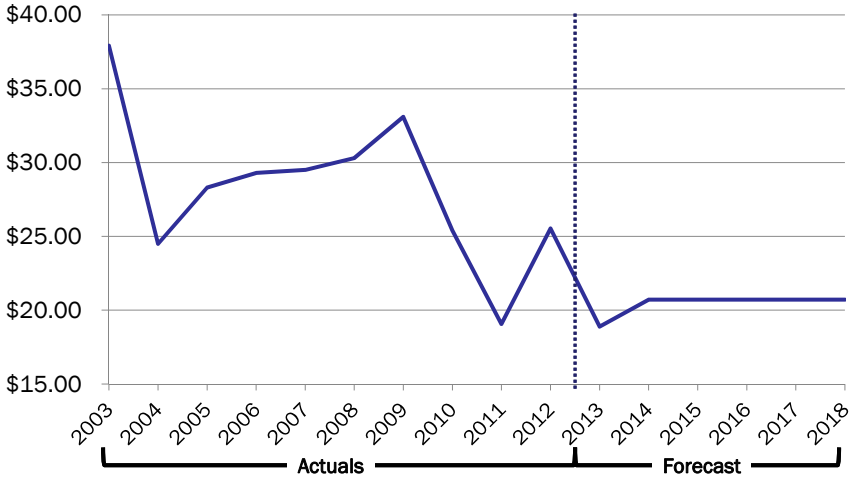
	Manufacturing Rate	Retail Rate	Services Rate	Wholesale Rate
Tacoma	*0.0011*	*0.00153*	*0.004*	*0.00102*
Bellevue	0.001496	0.001496	0.001496	0.001496
Olympia	0.001	0.001	0.002	0.002
Seattle	0.00215	0.00215	0.00415	0.00215
Puyallup	None	None	None	None
Lakewood	None	None	None	None
Spokane	None	None	None	None
Federal Way	None	None	None	None
Fife	None	None	None	None
Vancouver	None	None	None	None

OTHER REVENUES

OTHER REVENUE BREAKDOWN (IN MILLIONS)
($39.62M OR 10% OF GENERAL FUND REVENUES)



OTHER REVENUES (IN MILLIONS)



OTHER 2013-2014 BUDGETED REVENUE DETAIL

Category	Revenue Source	% of GF Revenues	Biennial Budget (In Millions)
Other Taxes	Leasehold Excise	0.8%	$3.31
Other Taxes	Gambling	0.2%	0.76
Licenses and Permits	Business	1.3%	5.19
Licenses and Permits	Non-Business	0.2%	0.99
Intergovernmental	Liquor taxes	1.2%	4.61
Intergovernmental	Criminal Justice	0.6%	2.44
Intergovernmental	Fire Protection Svc	2.1%	8.23
Intergovernmental	Vehicle License Fee	1.0%	4.10
Intergovernmental	All Other	0.6%	2.20

OTHER REVENUE BREAKDOWN, CONTINUED

Category	Revenue Type	% of GF Revenues	Biennial Budget (In Millions)
Charges for Svc	Charges for Service	0.6%	$2.45
Fines and Forfeits	Fines and Forfeits	0.4%	1.72
Miscellaneous	Interest	0.4%	1.54
Miscellaneous	Build America Bonds	0.4%	1.64
Miscellaneous	All other	0.1%	0.44
	Total Other Revenue	**10%**	**$39.62**

SUMMARY

SUMMARY

- Revenues are forecasted to grow at a lower rate than expenditures
- Tacoma's four main General Fund revenue sources are property tax, gross earnings tax on utilities, sales tax and business and occupation tax (B&O)
- Ability to assess and collect revenues is regulated by a combination of state/county/city laws, rules and regulations
- Diversified revenues mean that the City's revenues are likely more stable than if the City relied on a single or few sources of revenues

SUMMARY

	Revenue Alternatives
City Council Vote	• B&O – could increase to 0.02% limit on wholesaling, manufacturing, retailing and grain and would raise $9M annually
Citizen Vote	• Sales Tax – Local Criminal Justice would increase sales tax by 0.1% and would raise approx. $4M annually • Property Tax Levy Lid Lift – could increase by amount up to $3.60 maximum annually • GET Tax – could increase power, natural gas and telephone increase to 8% (limit of City Charter) would raise $10-11M annually • GET Tax – could increase beyond City Charter for all or specific utilities • B&O Tax – could increase beyond 0.02%
State Legislative Approval	• Sales Tax – state approval for new dedicated sales tax increases or increase in General Fund funding, could require City Council vote or Citizen Vote • Property Tax – change to 1% limit or $3.60 levy rate limit, change to the authority to collect for EMS or other special levies • State Distributed Revenues – could modify the amount distributed to cities, such as liquor revenues, or criminal justice revenues • Additional Authority – for example increased vehicle tab fee authority or street utility

FISCAL SUSTAINABILITY TASK FORCE

Revenue Overview
July 24, 2013

Meeting 3