

MEMORANDUM

16 October 2013

TO: City of Tacoma Fiscal Sustainability Task Force  
FR: Evette Mason, Port of Tacoma

RE: Port of Tacoma tax and funding contributions to the City of Tacoma

This memorandum is intended to enhance the understanding of the Fiscal Sustainability Task Force members about the Port of Tacoma, its role as a Special Purpose Government and the nexus points between the Port and City related to job creation and economic development. For additional information, please feel free to contact me by calling 253/383-9435 or by e-mail to [emason@portoftacoma.com](mailto:emason@portoftacoma.com).

## BACKGROUND

**Creation of Washington State Ports:** In 1889, the Washington state constitution declared that the beds of navigable waters belonged to the people, and gave the Legislature power to designate which of those beds would become harbors. In 1911, after citizens lobbied for the right to control access to the waterfront, the Legislature passed the Port District Act, allowing the formation of port district and the election of commissioners to govern it. The citizens of Pierce County established the Port of Tacoma in 1918. Currently, there are 75 public port districts in Washington and they are active in many different areas of economic development, providing jobs and economic stimulation for their communities.

**Port Governance:** Port districts in Washington are unique as they are governed by a publicly elected commission, independent of other local jurisdictions. Their areas of oversight include long-term strategies for the Port of Tacoma, and the policies to guide its development, growth, and operation. They are also responsible for the Port's annual budgets, approving tax levy rates, and hiring the professional staff members responsible for a port's daily functions. The Port of Tacoma district encompasses all of Pierce County.

Active in both international and domestic trade, the Port of Tacoma is a major center for containers, bulk, breakbulk, automobiles, and military cargo. The Port has a healthy balance of trade between imports and exports. Home to six container terminals, on-dock rail yards, cargo handling equipment, and industrial property, the Port handles goods on their way to major consumer markets across the county.

The Port of Tacoma owns approximately 2400 acres or 55 percent of the land in the Tacoma Tideflats. The balance is privately-owned. The Port leases large tracts of property to international and domestic shipping companies, as well as manufacturing, industrial and maritime-related companies. The privately-owned property owners in the Tideflats pay property taxes to Tacoma. Port of Tacoma tenants pay Leasehold Tax, as well as B&O Taxes and sales tax on construction, goods and services (details to follow).

The City of Tacoma receives funds from the Port of Tacoma in taxes (directly and via Washington State), partnerships and fees for services and permits. This report focuses on three main categories of funding; taxes, fire and police services, and direct and indirect partnerships with community benefits.

## 2012 Major Taxes Paid by the Port of Tacoma (excludes payroll taxes)

**Business & Occupation (B&O) Taxes** - The Port and its commercial tenants pay B&O Tax to Washington state on specific classifications of revenues. About 77% of the Port's operating revenues fall into the B&O taxing categories of "Stevedoring, Wholesaling, Retailing and Utilities." All businesses that lease property from the Port of Tacoma are obligated to pay State and City B&O taxes.

**Sales Taxes** - Washington sales taxes are added to the sales price and are paid by the Port in two ways:

- **Sales Tax Paid to Vendors:** The Port pays sales tax to vendors on certain construction contracts, materials and certain services that it consumes in the normal course of business. All businesses that lease property from the Port of Tacoma also pay sales tax to vendors.
- **Sales Tax on Sales to Port Customers:** The Port collects sales tax from its customers and remits it to the state. Typical taxable sales revenues are crane and equipment rentals, as well as any sale of materials and labor. The Port reports revenues and the related sales taxes on an accrual basis (when the revenue is earned, not when it is collected).

**Use Taxes** - Use tax is paid when a sales tax is due but is not collected at the point of sale. An example would be the Port purchased equipment from an out of state vendor that does not charge sales tax.

**Leasehold Taxes** – Leasehold Excise Tax is charged on private rentals of Port-owned property in lieu of property tax per Washington State RCW 82.29A. The current Leasehold Tax rate is 12.84% and is levied on the fair rent paid to the Port. A tenant pays the lease rent plus the Leasehold Tax to the Port. The Port then remits the Leasehold Tax to the Washington State Department of Revenue on a quarterly basis. Of the total paid by the Port's tenants, Washington State allocates 30.54% to the City of Tacoma and 15.26% to Pierce County.

***Please see attachment for tax payments by the Port of Tacoma.***

In addition, the Port aggressively seeks tenants to occupy a range of properties and facilities. The Port's 110 tenants pay City and State B&O taxes, sales taxes for goods and services, Leasehold Tax and utility taxes.

To better provide a sense of these tax expenses for private companies, see the below chart for two examples of 2012 B&O and Leasehold Taxes paid by Port tenants (excludes sales taxes, utility and payroll taxes). Information was provided by Port tenants.

Type of Company	Tacoma B&O	Wa State B&O	Leasehold Tax
Larger Shipping Facility	\$324,245	\$666,963	\$307,570
Mid-size Trucking Firm	\$6,403	\$86,103	\$75,102

**Public Access Fee:** In addition to taxes, there are a myriad of permit and service fees. A new fee to be added in 2013 is a two percent/.5 percent public access fee that will be added to Port development within the 200' of the shoreline if the Port does not produce a similarly valued public access site. An

example of this fee is a \$32 million dollar wharf extension project. In addition to the building permit fee of \$46,680 and other fees and taxes, an additional \$310,000 fee for public access will be added to the cost of the project.

In addition to the above referenced taxes, the Port of Tacoma paid the City of Tacoma over \$6,000,000 in fees, permits, services and taxes in 2012. These charges were primarily for utilities that incur significant utility taxes (between 6% and 8%). Tacoma Rail, a cost of service provider, is an example of our unique interagency partnership. In addition to property rental, the Port and private rail users contributed to the approximately \$24 million in Tacoma Rail 2012 revenue. The entire 8% of gross earnings tax paid on rail services in the Tideflats goes to the City of Tacoma as well as approximately \$1 million that the City of Tacoma charges Tacoma Rail for business services, such as legal and human resources assistance.

## Tacoma Fire and Police Services

The City receives funding for Fire and Police services in the Tideflats primarily through the range of taxes described above. Additionally, there are specific areas of focus where the Port and City have secured federal funds for augmented services. These include:

**Port Security Grants:** In partnership with the City of Tacoma Police and Fire Departments, the Port and City have applied for and received several Port Security Grants through the Department of Homeland Security to enhance first responder capabilities. From 2006 through 2013, Tacoma Fire received \$4.3 million and Tacoma Police received \$3.3 million in security grants.

The newest Tacoma fireboat, *The Destiny*, is an example of a Port/City partnership that leveraged grant funds. Launched in 2012, *The Destiny* cost approximately \$675,000. The Port received \$364,000 in federal grants and participated in the required match funding with \$123,000. This vessel and its crew respond to any local marine incident. It is noteworthy that fire risks at Port terminals have been substantially reduced in recent years as wood piers are replaced with concrete piling and wharf infrastructure.

**Fire Service:** Data regarding fire service calls received from the City of Tacoma Fire Department was not specific to Port-operated facilities but included Port-operated facilities, private tenants of Port-owned properties and calls to properties adjacent to Port-owned parcels. The average number of calls to this broader area is between 16 and 20 per month and includes hazmat calls, false alarms, staging/standby situations, investigations, EMS calls and fire calls.

Data from Tacoma Police Department was not specific to Port-operated properties. The 2012 list of Top 20 Call Locations included one Port leased area and that was a business center with multiple private company tenants and users.

In response to questions from the Task Force, Port of Tacoma staff polled the ports of Olympia, Everett, Vancouver (USA) and Seattle to inquire whether special taxes or fees are paid by those ports to their respective local cities for police or fire services. None were reported. The only "payments" mentioned

were for funding assistance or free moorage for a jurisdictional police/fire boat. The City of Tacoma has moorage for their vessels but as previously outlined, the Port of Tacoma helped fund the most recent Tacoma fire boat.

## **Direct Partnerships with the City of Tacoma**

The Port of Tacoma has partnered with the City of Tacoma on several recent projects. The following list does not contain all projects but is provided to show the range and diversity of our direct payments to the City of Tacoma for projects of community benefit.

**Puyallup River Bridge (Pacific Highway/Old 99)** – At the City’s request, the Port Commission committed \$500,000 to the Puyallup River Bridge project and Port staff leveraged the partnership in Olympia for additional funds to finance the renovation.

**Port of Tacoma Road** – The Port of Tacoma has committed \$500,000 toward the repaving of Port of Tacoma Road and we are working with the City to seek additional funds through the Puget Sound Regional Council. Port of Tacoma Road is part of a heavy haul road network in the Tideflats that requires trucks to have a special permit. The City plans to use these permit dollars for their share of grant match dollars.

**Hylebos Bridge** – The Port’s contribution toward the renovation of the Hylebos Bridge is over \$10 million. It reopened in 2012.

**Relocation of Youth Marine Foundation** – The Foss Waterway Development Authority (FWDA) is the City of Tacoma’s public development corporation for the express purpose of redeveloping public lands on the Thea Foss Waterway. The FWDA requested the Port’s assistance with finding a new home for the Youth Marine Foundation and its vessels away from the west side of the Foss Waterway. In 2007, the Port of Tacoma purchased a facility on the eastside of the waterway to relocate Youth Marine Foundation, their marine businesses and training facilities. The City of Tacoma assisted with facility renovations with REET funds.

**Lincoln Avenue Grade Separation** – This \$50 million road/rail project opened in 2011 and was primarily funded by the federal government (\$ 26 million), the Port (nearly \$13 million) and Washington State (\$10 million).

**SeaPort Museum** – In the 2007, the City of Tacoma and FWDA sought and obtained \$500,000 in assistance from the Port for the renovation of the Foss Waterway wharf.

## **Indirect Partnerships for Community Economic Development Opportunities**

The Port funds key economic development organizations in our community. The following are examples of recent investments:

Tacoma Pierce County Economic Development Board - \$100,000 (2013)

World Trade Center Tacoma and Fuzhou Trade Project - \$120,000 (2013)

Tacoma Pierce County Chamber (dues and sponsorships) - \$35,000 (2013)

UWT – Urban Waters Project and Information Technology Center – \$1,500,000 (over multiple years)

In addition, the Port sponsors events and projects that fall within our statutory authority to bring economic development to our region. Examples of 2013 partnerships in Tacoma – City of Tacoma International Film Festival, Asia Pacific Cultural Center New Year Celebration, Propeller Club, UWT Financial Reporting Conference, Well Spring Water Partners Conference, Maritime Festival, NW Waterways Symposium Conference in Tacoma, Sea Plane Float, Audubon Society Annual Dinner, Citizens for a Healthy Bay, Foss Waterway Seaport Museum Children’s area, Washington Historical Society Train Festival, World Affairs Consular Corps Reception, Polar Plaza, T-Town Sailing event and Moon Festival.

In conclusion, the Port of Tacoma’s economic development focus is to attract and retain businesses. These businesses pay taxes and provide family-wage jobs for Pierce County citizens. In an August 2013 report by the City of Tacoma’s Economic Development Department (see attached), several improvements in the City’s economic indicators for the second quarter of 2013 are attributable to Port businesses. Specifically, the rise in B&O Tax revenues was linked to the surge in Port and construction-related activities. Further, “employment grew primarily in transportation/utilities, trade and manufacturing.”

When the Port of Tacoma does well, the positive economic benefits impact the City of Tacoma, Pierce County and most importantly our citizens.

**Port of Tacoma**  
**Major Washington State Taxes Paid by the Port of Tacoma (excludes Payroll Taxes)**

**Total Taxes Paid and Remitted by Port of Tacoma:**

Tax Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total 10 Year Period
State B & O Excise Tax (Port)	\$216,561	\$230,799	\$162,219	\$206,060	\$221,943	\$222,699	\$229,048	\$263,438	\$309,670	\$349,586	\$2,412,023
Sales Tax Paid to Vendors (Port)	\$5,674,994	\$9,162,950	\$3,740,649	\$3,145,796	\$2,916,264	\$3,197,336	\$1,965,624	\$2,113,893	\$1,949,854	\$1,845,022	\$35,712,382
Sales Tax on Sales to Port Customers	\$1,470,148	\$1,631,220	\$546,171	\$757,307	\$976,646	\$862,456	\$823,736	\$882,672	\$1,079,561	\$1,311,143	\$10,341,060
Use Tax (Port)	\$483,502	\$113,929	\$73,077	\$62,168	\$70,090	\$579,372	\$102,166	\$57,374	\$196,714	\$128,188	\$1,866,580
Leasehold Tax (Tenant)	\$2,321,006	\$2,266,411	\$2,410,621	\$2,884,192	\$3,160,978	\$3,354,147	\$3,439,350	\$3,553,721	\$3,733,446	\$3,615,469	\$30,739,341
<b>Total</b>	\$10,166,211	\$13,405,309	\$6,932,737	\$7,055,523	\$7,345,921	\$8,216,010	\$6,559,924	\$6,871,098	\$7,269,245	\$7,249,408	\$81,071,386

*(Port) - Paid 100% by the Port of Tacoma*

*(Tenant) - Leasehold Tax is Paid 100% (under present State Law) by the Port Tenants to the Port and the Port remits the tax to the State of Washington Department of Revenue*

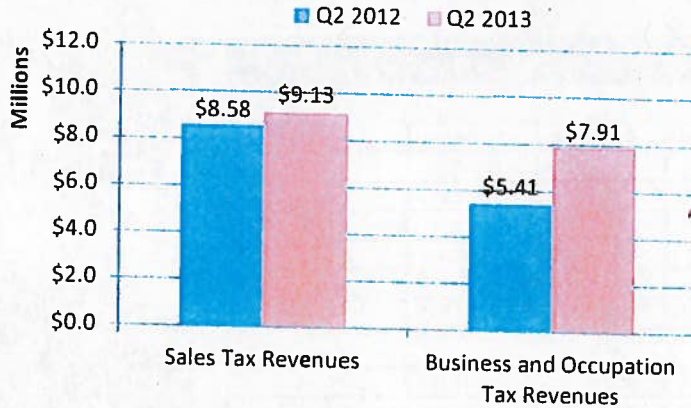


# CITY OF TACOMA – ECONOMIC INDICATORS SUMMARY

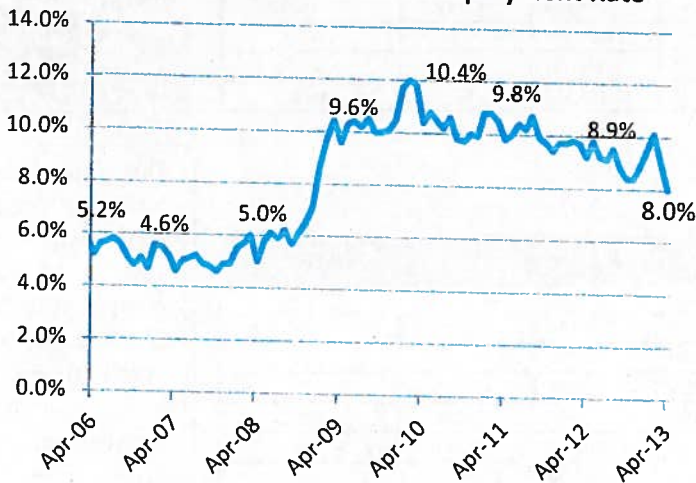
## SECOND QUARTER REPORT 2013

The following report provides data on economic trends in the community and the City of Tacoma's efforts to support economic development. These key economic indicators are reported quarterly.

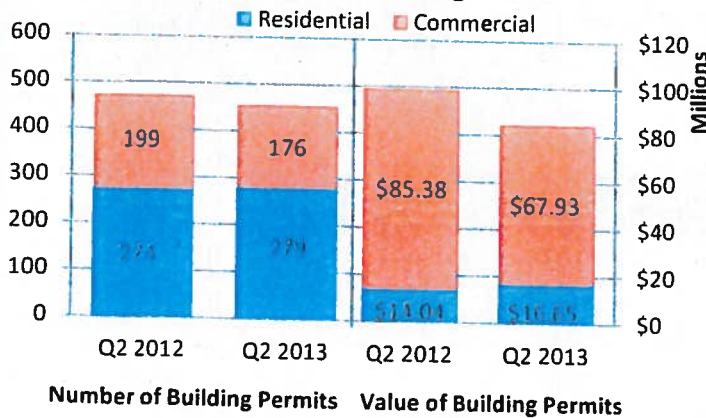
### City of Tacoma Tax Revenue



### Tacoma Metro Area Unemployment Rate



### City of Tacoma Building Permits



### OVERVIEW

The local economy improved between Q2-2012 and Q2-2013 in several key areas—**Revenue:** sales as well as business and occupation taxes, and **Employment:** construction and Port-related activity.

The City of Tacoma experienced nearly 7% growth in sales tax revenues and 46% in business and occupation tax revenues. Motor vehicle sales and building construction were the major contributors to the increase in sales tax revenues. The surge in Port and construction-related activities (e.g. engineering and architects) and increase in retail and wholesaling associated with construction contributed to the rise in business and occupation tax revenues.

Between Q2-2012 and Q2-2013, the unemployment rate declined from 8.9% to 8.0%. **Employment** grew primarily in transportation/utilities, trade and manufacturing. Industrial employers, such as Bradken, Globe Machine and Targa, continue to grow as well as MultiCare, Franciscan and other health care providers.

The number of residential building permits increased 2% from Q2-2012 to Q2-2013, while their value grew by 19%. The number and value of commercial building permits declined 12% and 20% respectively from Q2-2012 to Q2-2013. The major permits issued in Q2-2012 consisted of the Holiday Inn Express, Franciscan Parking Garage, Tacoma Mall Apartments and Tacoma General Hospital remodel. Key permits issued in Q2-2013 were State Farm tenant improvements and the Washington Hoyt Elementary School remodel.

# CITY OF TACOMA - ECONOMIC INDICATORS

## SECOND QUARTER REPORT 2013

### ECONOMIC SECTORS OF TACOMA

	2011	2012	Q2 2012	Q2 2013	% change from prior year Q2
<b>Sales Tax Revenue - Top Five Sectors</b>					
1. Retail Trade	\$16,904,969	\$17,655,218	\$4,335,068	\$4,396,818	1%
2. Construction	\$4,375,522	\$4,660,021	\$976,244	\$1,160,398	19%
3. Accommodation & Food Services	\$3,473,529	\$3,580,195	\$892,599	\$917,231	3%
4. Wholesale Trade	\$2,349,947	\$2,368,677	\$525,477	\$693,111	32%
5. Information <sup>1</sup>	\$1,401,581	\$1,308,844	\$329,660	\$328,035	-0.5%
All Other Economic Sectors	\$6,742,649	\$6,408,467	\$1,516,339	\$1,639,272	8%
<b>TOTAL</b>	<b>\$35,248,197</b>	<b>\$35,981,422</b>	<b>\$8,575,387</b>	<b>\$9,134,865</b>	<b>7%</b>
<b>Business and Occupation - Top Five Sectors</b>					
1. Service & Other <sup>2</sup>	\$11,703,156	\$11,785,115	\$1,759,785	\$4,094,225	133%
2. Retailing	\$6,590,256	\$6,692,583	\$1,559,926	\$1,803,920	16%
3. Wholesaling	\$4,310,317	\$4,551,449	\$1,089,873	\$986,139	-10%
4. Manufacturing <sup>3</sup>	\$3,339,273	\$3,567,144	\$839,989	\$829,827	-1%
5. Retail Services <sup>4</sup>	\$489,874	\$620,072	\$117,529	\$39,924	-66%
All Other Economic Sectors <sup>5</sup>	\$695,479	\$125,935	\$38,321	\$155,150	305%
<b>TOTAL</b>	<b>\$27,128,355</b>	<b>\$27,342,298</b>	<b>\$5,405,423</b>	<b>\$7,909,188</b>	<b>46%</b>



### EMPLOYMENT

	2011	2012	Q2 2012	Q2 2013	% change from prior year Q2
<b>Employment by Sector - Top Growth Sectors</b>					
1. Construction	16,200	16,600	16,200	16,000	-1%
2. Manufacturing	16,400	16,700	16,700	17,100	2%
3. Trade	42,600	43,100	42,500	43,400	2%
4. Transportation/Utilities	11,800	12,800	12,700	13,300	5%
All Other Economic Sectors	179,300	179,800	180,600	182,800	1%
<b>TOTAL</b>	<b>266,300</b>	<b>269,000</b>	<b>268,700</b>	<b>272,600</b>	<b>1%</b>
<b>Total Employment Non-Farm Metro (Private)</b>	<b>208,500</b>	<b>212,100</b>	<b>211,000</b>	<b>215,400</b>	<b>2%</b>
<b>Unemployment Rate</b>	<b>9.8%</b>	<b>8.9%</b>	<b>8.9%</b>	<b>8.0%</b>	<b>-0.9%</b>

### BUSINESS START-UPS AND CLOSURES

	2011	2012	Q2 2012	Q2 2013	% change from prior year Q2
<b>Number of New Business Licenses</b>	<b>2,744</b>	<b>2,206</b>	<b>472</b>	<b>542</b>	<b>15%</b>
<b>Total Number of Business Licenses</b>	<b>25,130</b>	<b>23,303</b>	<b>24,370</b>	<b>23,472</b>	<b>-4%</b>

The City issued 70 new business licenses in Q2-2013, which represents a 15% increase when compared to Q2-2012. This is attributable to the acceleration of Port activity and multiple new construction sites in the area — MultiCare, Franciscan, Community Health Care and Tacoma Community College. The total number of business licenses declined by 898 or 4% because Tax & License closed “non-reporting” accounts that were no longer conducting business but still had active accounts.



# CITY OF TACOMA - ECONOMIC INDICATORS

## DEVELOPMENT AND INDUSTRIAL PERFORMANCE

	2011	2012	Q2 2012	Q2 2013	% change from prior year Q2
Average Lease Rates for Commercial Office Space	\$19.61	\$20.77	\$20.82	\$20.82	0%
Number of Commercial Building Permits	628	673	199	176	-12%
Number of Residential Building Permits	1,065	906	274	279	2%
Value of Commercial Building Permits	\$189.27M	\$257.63M	\$85.38M	\$67.93M	-20%
Value of Residential Building Permits	\$62.44M	\$49.19M	\$14.04M	\$16.65M	19%
Port of Tacoma Container Volume in Twenty-Foot Equivalent Units (TEU)	1.476M	1.711M	0.379M	0.462M	22%



The Port of Tacoma container volume increased 22% from Q2-2012 to Q2-2013 due a rebounding economy and the arrival of the Grand Alliance.

## WORKFORCE DEVELOPMENT AND SMALL BUSINESS ENGAGEMENT

	2011	2012	Q2 2012	Q2 2013	% change from prior year Q2
Number of SBE Firms Hired	23	17	15	8	-47%
Total SBE Contract Value	\$3.965M	\$2.373M	\$1.032M	\$1.679M	63%
Number of LEAP Jobs	129	135	N/A	55	N/A

Fewer individual SBE firms received contracts when comparing Q2-2012 to Q2-2013, but the average size of contracts increased from \$69,000 to \$210,000. The larger SBE contracts were primarily due to extensive Public Works projects. In Q2-2013, the Vassault Phase 3 storm sewer reconstruction was the largest project.

