

CITY OF SPOKANE VALLEY

Request for Council Action

Meeting Date: November 1, 2016

Department Director Approval:

Check all that apply: consent old business new business public hearing
 information admin. report pending legislation executive session

AGENDA ITEM TITLE: Transportation and Infrastructure Funding – Utility Taxes

GOVERNING LEGISLATION: RCW 35A.82.020 Licenses and permits – Excises for regulation; RCW 35.21.865 Electricity, telephone, or natural gas business – Limitations on tax rate changes; RCW 35.21.870 Electricity, telephone, natural gas, or steam energy business – Tax limited to six percent – Exception

PREVIOUS COUNCIL ACTION TAKEN: None

BACKGROUND:

Since 2004, Council has had periodic discussions regarding the need and potential options for funding current and projected future deficits in the City's transportation and infrastructure programs, including the option of a utility tax. In 2004 a proposed Utility Tax Ordinance was introduced in response to projected deficits in the City's Street Fund #101, but Council ultimately decided not to have a second reading of the ordinance. The discussion was postponed for a few years due to the City receiving more in both property taxes and sales taxes than was originally anticipated in the first few years of incorporation. However, in 2008 the City was once again faced with annual deficits of approximately \$2.1 million in the Street Fund #101, and Council was confronted with the choice of either increasing revenues or reducing street maintenance activities in order to reduce costs. The decision was made to increase revenues through a 6% Telephone Utility Tax through passage of Ordinance 08-014 in August 2008.

The Telephone Utility Tax generated \$3.054 million during 2009 in its first year of implementation, which served the purpose of eliminating the deficit in the Street Fund #101. However, between 2009 and 2015 the City has seen an annual average decrease of 4.92% in the amount of Telephone Utility Taxes collected. So far in 2016, the City has collected \$134,993 or 8.82% less in Telephone Utility Taxes than during the same period of 2015 (see Attachment #1), and we are projecting collections of about \$2.2 million for the 2017 Budget. This represents an overall reduction of about \$850,000 in revenues since the tax's inception in 2009 while at the same time we have continued to see an increase in the cost of service contracts and materials throughout the same time period. Declining revenues in the Street Fund #101 combined with an increasing use of Real Estate Excise Taxes (REET) towards the Pavement Preservation program have once again placed the City in the position of looking at options on how to fund current and projected future deficits in transportation and infrastructure programs.

So far during 2016, Council has discussed this topic in detail at both the March 15, 2016 Workshop and the June 14, 2016 Budget Workshop. This topic has also been discussed throughout the 2017 Budget development process at Council meetings on August 9th, September 13th, September 27th, and October 11th. The Finance Committee also discussed this topic on May 12th, September 12th, and October 10th. Included in the discussions has been

dialogue regarding the deficits and needs in transportation and infrastructure programs at the City as well as options for funding those deficits.

Street Fund #101:

The City's transportation and infrastructure programs are operated out of several different City Funds. The Street Fund #101 generally accounts for the operations and maintenance of City streets. Maintenance work in Fund #101 includes street pavement repairs, traffic signals and signs, landscaping and vegetation control, snow and ice control, and many other street maintenance and repair activities. The main revenue sources for Fund #101 are Motor Vehicle Fuel Taxes which are passed through to the City from the State and the City's telephone utility tax which is imposed by the City under SVMC Chapter 3.70 at a rate of 6%.

As noted above, the City has continued to see a decline in the annual amount of telephone utility taxes collected. The budget for the Street Fund in the past several years has reflected cost cutting measures in order to keep recurring expenditures from exceeding projected recurring revenues. Attachment #2 depicts three years of actual activity for the Street Fund, the amended 2016 Budget, the proposed 2017 Budget, and projected activity from 2018 through 2021. The assumptions used in the projection are as follows:

- We assumed that the telephone utility tax would be completely replaced by an alternate revenue stream.
- The dollar amount of the projected alternate revenue stream is the amount necessary for estimated recurring expenditures to break even with recurring revenues.
- We assumed an increase of 2% annually for most expenditures as a reasonable measure of anticipated inflation.
- The Street Fund is assumed to have no contributions to the Pavement Preservation Fund #311 from 2018 forward.

Using these assumptions, we have calculated the alternate revenue stream necessary to generate approximately \$2.9 million annually, or about \$700,000 more than the telephone utility tax is anticipated to generate in 2017.

Pavement Preservation Fund #311:

The Pavement Preservation Fund #311 is used to account for pavement preservation projects within the City. The revenue sources for Fund #311 are composed of transfers-in from other City Funds and grant proceeds. The City has committed to financing the pavement preservation program in Fund #311 in an amount equivalent to 6% of General Fund recurring expenditures which totaled about \$2.3 million in the 2017 Budget (consisting of about \$953,000 from the General Fund, about \$67,000 from the Street Fund, and about \$1.3 million from REET).

The issue that the City is now faced with in our pavement preservation program is that we are committing an increasing amount of REET revenues toward pavement preservation which is now undermining our ability to provide matching funds for grant proceeds on other types of street construction, reconstruction and sidewalk projects. Attachment #3 displays projected REET revenues and expenditures through 2021, and assumes we continue to finance Pavement Preservation Fund #311 programs from this source. Under this assumption, we will have negative fund balances in our REET Funds beginning in 2019.

During the March 15, 2016 Council Workshop, Council was presented with information regarding the City's Pavement Condition Index (PCI). This information indicated that in order to have a target PCI of 71 with no increase in backlog, the City would need to invest about \$6.8

million annually in street preservation activities. The \$6.8 million included both activities that are generally accounted for in the Street Fund, such as surface treatments, and those that are generally accounted for in Fund #311. We determined the amount of the \$6.8 million that solely applied to Fund #311 is about \$5.6 million, which was calculated as follows:

PCI Needs per March 15, 2016 Workshop	\$ 6,806,000
Less Street Fund #101 Activities:	
Surface Treatment	(585,000)
Slurry Seal	(500,000)
Routine Maintenance (i.e. Crack Seal)	<u>(122,000)</u>
	<u>(1,207,000)</u>
 Pavement Preservation Fund #311 Needs	 <u>\$ 5,599,000</u>

Attachment #4 depicts three years of actual activity for the Pavement Preservation Fund, the amended 2016 Budget, the proposed 2017 Budget, and projected activity from 2018 through 2021. The assumptions used in the projection are as follows:

- We have assumed that Council wishes to fund pavement preservation at the full amount as discussed at the March 15, 2016 Council Workshop in order to achieve the target PCI of 71. If Council wishes to fund this program at either a higher or lower level, it will affect the amount of the alternate revenue stream correspondingly.
- The alternate revenue stream for the Pavement Preservation Fund equals the \$5.6 million calculated above less an assumed \$953,000 transfer in from the General Fund, \$400,000 transfer in from REET funds, and \$1 million in estimated grant proceeds.
- For analysis purposes, we have assumed expenditures to be equal to revenues.

Using these assumptions, we have calculated that in 2018, the alternate revenue stream in the Pavement Preservation Fund would need to generate \$3.2 million annually, which combined with the Street Fund 2018 need of \$2.9 million, results in a 2018 total need of \$6.1 million. The total amount needed to be generated by an alternate revenue stream in the years 2018 through 2021 is as follows:

	Projected (in millions)			
	2018	2019	2020	2021
Projected Funding Needs:				
Street Fund #101	\$ 2.9	\$ 3.0	\$ 3.1	\$ 3.2
Pavement Pres Fund #311	3.2	3.2	3.2	3.2
Combined Funding Needs	<u>\$ 6.1</u>	<u>\$ 6.2</u>	<u>\$ 6.3</u>	<u>\$ 6.4</u>

We anticipate the revenue stream referenced above will be required each year beyond 2021 if the City wishes to maintain streets at this level of service.

Utility Tax:

The City has the authority to impose utility taxes under RCW 35A.82.020. The tax rate is limited to 6% (without a vote of the people) for the following:

- Electricity
- Natural gas
- Steam

- Telephone

A higher tax rate may be imposed with majority voter approval. There are no rate limits for the following activities:

- Sewer/Stormwater
- Solid waste
- Water
- Cable television (however, the rate must be the same or similar to other utilities in order to not be discriminatory)

There are no statutory limitations on the use of utility tax revenues; however, Council may choose to dedicate the revenues toward a specific activity, such as transportation and infrastructure needs. Any changes in the tax rate cannot take effect until the end of 60 days after the enactment of the ordinance by the City. Currently the City only imposes a utility tax of 6% on telephone providers, which was effective beginning January 1, 2009. The revenue generated by this tax is designated in SVMC Chapter 3.70.140 for exclusive use in the City road fund (Street Fund #101), as is discussed previously in the Street Fund #101 section above.

One of the reasons that a broader utility tax has been rejected by the City in the past is that we did not believe that we could impose the utility tax on quasi-municipal entities providing utility services in the City. Our area is unique in that we have a mixture of utility providers that are either private businesses or quasi-municipal entities. If the City were to impose a utility tax on only the private business, it would cause an inequity among citizens who were contributing toward the tax because some citizens are served by private businesses and others are served by quasi-municipal entities.

However, a court case in 2014 clarified that the City can impose a utility tax on another municipality or public agency if they are deriving revenues on proprietary activities. The case was specifically related to water utilities but applies to any activity that is considered to be proprietary in nature. That being the case, the City is generally no longer in the position of only imposing a utility tax on some providers and not others, which makes any future utility tax apply more equitably to all of the City's population.

In light of the City's current and projected future deficits in transportation and infrastructure programs, Council has requested staff to research revenue estimates for utility taxes on electricity, natural gas, sewer, solid waste disposal, and water. Attachment #5 shows the revenue estimates ranging from a 1% to a 6% utility tax on each of these services. All services combined at 6% would generate an estimated \$7.8 million annually.

For comparison purposes, Attachment #6 shows the utility tax rates of neighboring jurisdictions for various services as well as the current and proposed utility tax rates that are included in the draft Utility Tax Ordinance for Spokane Valley.

Draft Utility Tax Ordinance:

The draft Utility Tax Ordinance would repeal SVMC Chapter 3.70 relating to the 6% telephone utility tax in its entirety and adopt SVMC Chapter 3.71, which would impose a utility tax on electricity, solid waste disposal, sanitary sewer, water, and natural gas services. The draft Ordinance states that the revenues generated by the tax shall be exclusively used for funding City road projects, including but not limited to road construction, operation, maintenance, and preservation, sidewalks, railroad grade separation, and other similar projects which are directly related to vehicular and pedestrian transportation.

The draft Ordinance currently states that a utility excise tax shall be levied and collected at a rate of 6% of the gross income of sales within the City for the utility services of electrical distribution, solid waste disposal service, sanitary sewer service, water service, and natural gas distribution. Gross income may be adjusted by amounts that were adjusted on a customer billing or account to reverse a billing or charge that was not properly owed by the customer or amounts that are written off as uncollectible debts. Tax payments would be made directly by utility companies to the City Finance Department. The draft Ordinance also outlines penalties and interest assessed for late payments, records retention requirements, and includes an appeals procedure, among other items.

OPTIONS: Continue discussion on current and projected deficits for transportation and infrastructure programs, including potential new revenue sources or reductions in services. Staff is seeking consensus to bring the draft Utility Tax Ordinance forward for a public hearing and first reading on November 8, 2016, either as presented or with Council changes.

RECOMMENDED ACTION OR MOTION: None at this time. A public hearing and first reading of the draft Ordinance are scheduled for November 8, 2016.

BUDGET/FINANCIAL IMPACTS: A utility tax of 6% on electricity, natural gas, solid waste disposal, sewer, and water services would generate an estimated \$7.8 million annually. A utility tax imposed at a lower rate, or on some but not all of the services, would generate less annually. If no utility tax is imposed, the City will continue to see current and projected future deficits for transportation and infrastructure program, which will necessitate a reduction in services in order to match existing revenue sources.

STAFF CONTACT: Chelsie Taylor, Finance Director, and Cary Driskell, City Attorney

ATTACHMENTS:

- Illustrative Attachments:
 - Attachment #1 – Telephone Utility Tax Collections for the Year 2009 through 2016
 - Attachment #2 – Street Fund #101 Projection through 2021
 - Attachment #3 – Analysis of Real Estate Excise Tax (REET) Revenues
 - Attachment #4 – Pavement Preservation Fund #311 Projection through 2021
 - Attachment #5 – Annual Utility Tax Revenue Estimates for the City
 - Attachment #6 – Comparison of Utility Tax Rates with Other Jurisdictions
- Draft Utility Tax Ordinance
- PowerPoint Presentation

CITY OF SPOKANE VALLEY, WA
Telephone Utility Tax Collections -
For the years 2009 through 2016

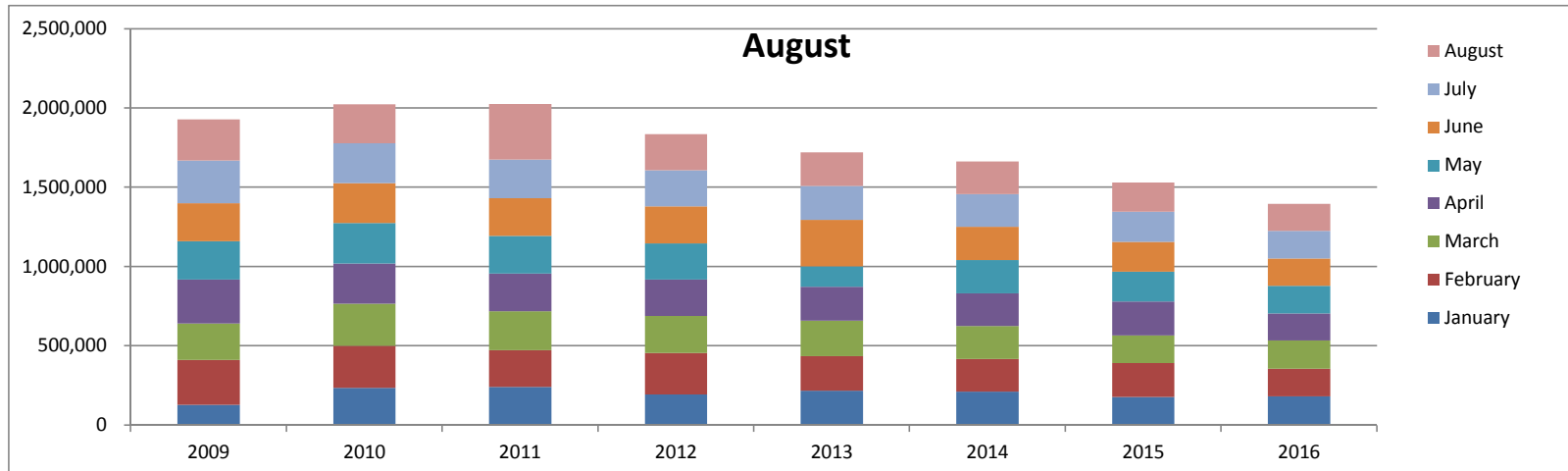
August



10/10/2016

	2009	2010	2011	2012	2013	2014	2015	2016	2016 to 2015	
									Difference	%
January	128,354	234,622	241,357	193,818	217,478	210,777	177,948	182,167	4,219	2.37%
February	282,773	266,041	230,366	261,074	216,552	205,953	212,845	173,971	(38,874)	(18.26%)
March	230,721	264,175	245,539	234,113	223,884	208,206	174,738	177,209	2,471	1.41%
April	275,775	254,984	238,561	229,565	214,618	206,038	214,431	171,770	(42,661)	(19.89%)
May	242,115	255,056	236,985	227,469	129,270	210,010	187,856	174,512	(13,344)	(7.10%)
June	239,334	251,880	239,013	234,542	293,668	210,289	187,412	170,450	(16,962)	(9.05%)
July	269,631	250,593	244,191	226,118	213,078	205,651	190,984	174,405	(16,579)	(8.68%)
August	260,408	246,261	349,669	228,789	211,929	205,645	185,172	171,909	(13,263)	(7.16%)
Collected to date	1,929,111	2,023,612	2,025,681	1,835,488	1,720,477	1,662,569	1,531,386	1,396,393	(134,993)	(8.82%)
September	249,380	240,111	241,476	227,042	210,602	199,193	183,351	0		
October	252,388	238,500	237,111	225,735	205,559	183,767	183,739	0		
November	254,819	247,848	240,246	225,319	212,947	213,454	175,235	0		
December	368,775	236,065	236,449	221,883	213,097	202,077	183,472	0		
Total Collections	3,054,473	2,986,136	2,980,963	2,735,467	2,562,682	2,461,060	2,257,183	1,396,393		
Budget Estimate	2,500,000	2,800,000	3,000,000	3,000,000	2,900,000	2,750,000	2,565,100	2,340,000		
Actual over (under) budg	554,473	186,136	(19,037)	(264,533)	(337,318)	(288,940)	(307,917)	(943,607)		
Total actual collections as a % of total budget	122.18%	106.65%	99.37%	91.18%	88.37%	89.49%	88.00%	n/a		
% change in annual total collected	n/a	(2.24%)	(0.17%)	(8.24%)	(6.32%)	(3.97%)	(8.28%)	n/a		
% of budget collected through August	77.16%	72.27%	67.52%	61.18%	59.33%	60.46%	59.70%	59.67%		
% of actual total collected through August	63.16%	67.77%	67.95%	67.10%	67.14%	67.55%	67.85%	n/a		

Chart Reflecting History of Collections through the Month of August



CITY OF SPOKANE VALLEY, WA
Fund #101 - Street Fund
Projection through 2021

7/7/2016
9/8/2016
11/1/2016

	⁽¹⁾			Amended Budget 2016	Proposed Budget 2017	Projected				
	Actual 2013	Actual 2014	Actual 2015			2018	2019	2020	2021	
RECURRING ACTIVITY										
Revenues										
Telephone Utility Tax	2,562,722	2,461,060	2,257,184	2,340,000	2,200,000	0	0	0	0	(2)
Alternative Utility Tax	0	0	0	0	0	2,869,965	2,963,969	3,059,853	3,157,654	(3)
Motor Vehicle Fuel (Gas) Tax	1,868,055	1,878,476	1,935,629	2,004,900	2,040,300	2,040,300	2,040,300	2,040,300	2,040,300	
Multimodal Transportation Revenue	0	0	0	0	98,868	98,868	98,868	98,868	98,868	
Right-of-Way Maintenance Fee	0	0	0	50,000	50,000	50,000	50,000	50,000	50,000	
Investment Interest	2,920	2,037	3,212	3,000	4,000	4,000	4,000	4,000	4,000	
Insurance Premiums & Recoveries	1,790	4,204	4,319	0	0	0	0	0	0	
Miscellaneous Revenue	12,911	5,209	9,649	10,000	10,000	10,000	10,000	10,000	10,000	
Total Recurring Revenues	4,448,398	4,350,986	4,209,993	4,407,900	4,403,168	5,073,133	5,167,137	5,263,021	5,360,822	
Expenditures										
Wages / Benefits / Payroll Taxes	582,013	681,165	738,381	734,604	746,872	761,809	777,046	792,587	808,438	(4)
Supplies	108,110	460,844	116,660	111,500	105,000	107,100	109,242	111,427	113,655	
Services & Charges	2,152,294	2,197,089	2,052,457	2,132,754	2,167,151	2,541,994	2,592,834	2,644,691	2,697,584	
Snow Operations	485,717	0	465,232	430,000	468,000	477,360	486,907	496,645	506,578	
Intergovernmental Payments	797,275	876,680	707,967	771,000	796,000	811,920	828,158	844,722	861,616	↓
Interfund Transfers-out - #001	39,700	39,700	39,700	39,700	39,700	39,700	39,700	39,700	39,700	
Interfund Transfers-out - #311 (pavement preservation)	282,000	282,000	206,618	67,342	67,342	0	0	0	0	(5)
Interfund Transfers-out - #501 (non-plow vehicle rental)	10,777	10,777	12,077	31,000	23,250	23,250	23,250	23,250	23,250	
Interfund Transfers-out - #501 (plow replace.)	150,000	75,000	0	40,000	77,929	70,000	70,000	70,000	70,000	
Signal Detection Replacement Program	0	0	0	0	40,000	40,000	40,000	40,000	40,000	
Traffic Signal Replacement Program	0	0	0	0	200,000	200,000	200,000	200,000	200,000	
Total Recurring Expenditures	4,607,886	4,623,255	4,339,092	4,357,900	4,731,244	5,073,133	5,167,137	5,263,021	5,360,822	
Recurring Revenues over (under) Recurring Expenditures	(159,488)	(272,269)	(129,099)	50,000	(328,076)	0	0	0	0	
NONRECURRING ACTIVITY										
	(5,716)	(85,721)	(133,068)	(25,000)	(120,000)	0	0	0	0	
Excess (Deficit) of Total Revenues Over (Under) Total Expenditures	(165,204)	(357,990)	(262,167)	25,000	(448,076)	0	0	0	0	
Beginning fund balance	2,228,438	2,063,234	1,705,244	1,443,077	1,468,077	1,020,001	1,020,001	1,020,001	1,020,001	
Ending fund balance	2,063,234	1,705,244	1,443,077	1,468,077	1,020,001	1,020,001	1,020,001	1,020,001	1,020,001	

Assumptions

- (1) The actual numbers presented for 2015 are preliminary and unaudited as of July 6, 2016. They are subject to change as we complete the audit process.
- (2) For purposes of this analysis, we assumed that the telephone utility tax will be replaced with a different utility tax revenue stream. As such, telephone utility taxes are projected at \$0 for the years of 2018 through 2021.
- (3) The projection for the alternative utility tax equals the amount necessary to bring recurring revenues to an amount that covers recurring expenditures for the years 2018 through 2021.
- (4) For purposes of this projection, expenditures from 2018 to 2021 are calculated at an increase of 2% annually. The expenditures for 2018 were increased by \$395,000 in order to eliminate service reductions that had taken place in previous years due to budget constraints.
- (5) The Street Fund is assumed to have no contributions to the Pavement Preservation Fund from 2018 to 2021.

CITY OF SPOKANE VALLEY, WA
Analysis of Real Estate Excise Tax (REET) Revenues
and Scheduled Disbursements

2/26/2016	9/19/2016
3/7/2016	10/19/2016
6/14/2016	

	2016	2017	2018	2019	2020	2021
Estimated REET available on January 1	3,322,385	3,281,694	1,509,525	517,567	(450,544)	(435,347)
Estimated REET revenues	2,002,000	1,602,000	1,602,000	1,602,000	1,602,000	1,602,000
Estimated approved capital expenditures (Engineers estimate)	(1,125,319)	(419,563)	0	0	0	0
Potential capital expenditures (Top 2 Outstanding Grant Applications)	0	(1,190,669)	0	0	0	0
Barker Road / BNSF Grade Separation	(20,000)	(280,079)	(1,109,000)	(799,921)	0	0
Transfer to Fund #311 - Pavement Preservation	(730,572)	(1,320,958)	(1,320,958)	(1,320,958)	(1,320,958)	(1,320,958)
WSDOT Potential Grant Repayment	0	0	0	(284,282)	(105,095)	0
June 1 debt service payment on 2014 LTGO bonds	(18,400)	(16,450)	(14,500)	(12,475)	(10,375)	(8,275)
December 1 debt service payment on 2014 LTGO bonds	(148,400)	(146,450)	(149,500)	(152,475)	(150,375)	(153,275)
Estimated REET available on December 31	3,281,694	1,509,525	517,567	(450,544)	(435,347)	(315,855)

CURRENT PENDING GRANT APPLICATIONS	2016	2017	2018	2019	2020	2021
1 0141 - Sullivan Euclid PCC (CN)*	0	950,000	0	0	0	0
2 Safe Routes to School	0	220,617	0	0	0	0
3 Pedestrian and Bicycle Program	0	20,052	0	0	0	0
Total	0	1,190,669	0	0	0	0
Barker Road / BNSF Grade Separation	0	0	1,109,000	1,100,000	0	0

Shaded areas reflect known figures. All other figures are estimates.

* As discussed at Feb 16 Council Meeting

ACTUALS	
Fund 301 Fund Balance @ 1/1/2016	1,594,088
Fund 302 Fund Balance @ 1/1/2016	1,728,297
	3,322,385

CITY OF SPOKANE VALLEY, WA
Fund #311 - Pavement Preservation
Projection through 2021

7/7/2016
9/8/2016
11/1/2016

	Actual 2013	Actual 2014	(1)	Amended Budget 2016	Proposed Budget 2017	Projected				
			Actual 2015			2018	2019	2020	2021	
Revenues										
Alternative Utility Tax	0	0	0	0	0	3,245,800	3,245,800	3,245,800	3,245,800	(2)
Transfers in - #001 General Fund	0	888,823	920,000	943,800	953,200	953,200	953,200	953,200	953,200	(3)
Transfers in - #101 Street Fund	282,000	282,000	206,618	67,342	67,342	0	0	0	0	
Transfers in - #123 Civic Facility Replacement Fund	616,284	616,284	616,284	559,808	0	0	0	0	0	
Transfers in - #301 REET 1	150,000	184,472	251,049	365,286	660,479	200,000	200,000	200,000	200,000	
Transfers in - #302 REET 2	150,000	184,472	251,049	365,286	660,479	200,000	200,000	200,000	200,000	
Grants	35,945	2,042,665	835,224	2,063,000	340,800	1,000,000	1,000,000	1,000,000	1,000,000	
Miscellaneous	2,800	1,903	3,390	0	0	0	0	0	0	
Total revenues	1,237,029	4,200,619	3,083,614	4,364,522	2,682,300	5,599,000	5,599,000	5,599,000	5,599,000	
Total expenditures	1,387,153	3,077,215	2,400,408	4,550,000	3,050,000	5,599,000	5,599,000	5,599,000	5,599,000	(4)
Revenues over (under) expenditures	(150,124)	1,123,404	683,206	(185,478)	(367,700)	0	0	0	0	
Beginning fund balance	948,733	798,609	1,922,013	2,605,219	2,419,741	2,052,041	2,052,041	2,052,041	2,052,041	
Ending fund balance	798,609	1,922,013	2,605,219	2,419,741	2,052,041	2,052,041	2,052,041	2,052,041	2,052,041	

<u>Pavement Preservation Project Totals and Revenues Sources</u>									
Pavement Preservation Fund #311	1,387,153	3,077,215	2,400,408	4,550,000	3,050,000	5,599,000	5,599,000	5,599,000	5,599,000
General Fund #001	855,841	0	0	0	0	0	0	0	0
	<u>2,242,994</u>	<u>3,077,215</u>	<u>2,400,408</u>	<u>4,550,000</u>	<u>3,050,000</u>	<u>5,599,000</u>	<u>5,599,000</u>	<u>5,599,000</u>	<u>5,599,000</u>

<u>Computation of Pavement Preservation Commitment</u>				
General Fund recurring expenditures prior to addition of pavement preservation	33,629,496	37,418,882	38,357,999	38,925,602
Amount equivalent to 6%	6.00%	6.00%	6.00%	6.00%
Pavement preservation expenditures	<u>2,017,770</u>	<u>2,245,133</u>	<u>2,301,500</u>	<u>2,335,500</u>
<u>Components of Pavement Preservation Financing</u>				
#001 General Fund	888,823	920,000	943,800	953,200
#101 Street Fund	282,000	206,618	67,342	67,342
#123 Civic Facilities Replacement Fund	616,284	616,284	559,808	0
#301 Capital Projects Fund	184,472	251,049	365,286	660,479
#302 Special Capital Projects Fund	184,472	251,049	365,286	660,479
	<u>2,156,051</u>	<u>2,245,000</u>	<u>2,301,522</u>	<u>2,341,500</u>

Assumptions

- (1) The actual numbers presented for 2015 are preliminary and unaudited as of June 6, 2016. They are subject to change as we complete the audit process.
- (2) The projection for the alternative utility tax equals the estimated pavement preservation funding needs less other revenue sources for Fund #311.
- (3) For purposes of this analysis, the only assumed revenue streams are the General Fund contribution, REET in the amount of \$400,000/year and average grant proceeds of \$1,000,000/year for the years 2018 through 2021.
- (4) For analysis purposes, we have assumed expenditures equal to revenues.

CITY OF SPOKANE VALLEY, WA
Annual Utility Tax Revenue
Estimates for the City

DRAFT ANALYSIS - FOR DISCUSSION PURPOSES ONLY

9/8/2016
10/10/2016
11/1/2016

	1% Utility Tax	2% Utility Tax	3% Utility Tax	4% Utility Tax	5% Utility Tax	6% Utility Tax
Electric Services	\$762,811	\$1,525,621	\$2,288,432	\$3,051,243	\$3,814,053	\$4,576,864
Natural Gas Services	261,662	523,325	784,987	1,046,649	1,308,312	1,569,974
Sewer Services	140,827	281,654	422,482	563,309	704,136	844,963
Solid Waste Disposal Services	60,566	121,132	181,698	242,264	302,830	363,396
Water	68,813	137,627	206,440	275,253	344,066	412,880
	<u>\$1,294,679</u>	<u>\$2,589,359</u>	<u>\$3,884,039</u>	<u>\$5,178,718</u>	<u>\$6,473,397</u>	<u>\$7,768,077</u>

11/1/2016

CITY OF SPOKANE VALLEY, WA
Comparison of Utility Tax Rates
with Other Jurisdictions

Note: Utility tax rates for other jurisdictions were taken from the AWC 2015 Municipal Taxes and Fees Survey, which was obtained at <https://www.awcnet.org/DataResources/resourcesbytopic/TaxandUserFeeSurvey.aspx> or from the municipal code of the jurisdiction.

Municipality	Electricity	Natural Gas	Telephone	Cable TV	Solid Waste	Water	Sewer
Spokane	6.0%	6.0%	6.0%	6.0%	20.0%	20.0%	20.0%
Liberty Lake	3.0%	3.0%	3.0%	3.0%	3.0%	0.0%	0.0%
Cheney	(1)	(1)	6.0%	5.0%	6.0%	11.0%	11.0%
Deer Park	6.0%	6.0%	6.0%	6.0%	12.0%	12.0%	12.0%
Airway Heights	6.0%	6.0%	6.0%	3.0%	10.0%	19.8%	15.0%
Pullman	8.0%	8.0%	8.0%	8.0%	11.0%	8.0%	8.0%
Millwood	6.0%	2.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Spokane Valley - Current	0.0%	0.0%	6.0%	0.0%	0.0%	0.0%	0.0%
Spokane Valley - Proposed	6.0%	6.0%	0.0%	0.0%	6.0% (2)	6.0%	6.0%

(1) Rates are 6% for Regular, 4% for Residential Street and 4.75% for Parks.

(2) Solid Waste utility tax just proposed for disposal services (not collection services).

**CITY OF SPOKANE VALLEY
SPOKANE COUNTY, WASHINGTON
ORDINANCE NO. 16-018**

AN ORDINANCE OF THE CITY OF SPOKANE VALLEY, SPOKANE COUNTY, WASHINGTON, REPEALING CHAPTER 3.70 SPOKANE VALLEY MUNICIPAL CODE PROVIDING FOR A UTILITY TAX ON TELEPHONE PROVIDERS WITHIN THE CITY OF SPOKANE VALLEY, AND ADOPTING A NEW CHAPTER 3.71 SPOKANE VALLEY MUNICIPAL CODE ESTABLISHING A UTILITY TAX ON CERTAIN UTILITY PROVIDERS, INCLUDING PROCEDURES FOR THE IMPLEMENTATION AND ENFORCEMENT THEREOF, AND OTHER MATTERS PROPERLY RELATED THERETO.

WHEREAS, pursuant to RCW 35A.82.020 and RCW 35.21.870, the State of Washington has authorized code cities to raise revenue for the privilege of conducting certain utility businesses in the City, and use the revenues for any lawful City purpose; and

WHEREAS, an excise utility tax may be imposed upon gross receipts of a business provided the tax is uniform in its application; and

WHEREAS, pursuant to RCW 35.21.870, the City may not impose an excise utility tax on the privilege of conducting an electrical energy, natural gas, steam energy, or telephone business at a rate which exceeds six percent unless the rate is first approved by a majority of voters of the City; and

WHEREAS, the City desires to impose a different balance of utility taxes than is currently imposed in an effort to raise sufficient revenue to adequately address the City's street projects, including but not limited to road construction, operation, maintenance, and preservation, sidewalks, railroad grade separation, and other similar projects which are directly related to vehicular and pedestrian transportation; and

WHEREAS, the City currently imposes a six percent utility tax on telephone services. Spokane Valley Municipal Code 3.70.140 states that "all net revenues generated through taxation of telephone business pursuant to this chapter [chapter 3.70 SVMC] shall be designated for use exclusively in the City road fund." After full implementation in 2009, that utility tax provided approximately \$3.05 million annually. That amount has dropped by almost one-third since 2009 as households reduce the total number of service lines. As such, the telephone utility tax does not provide sufficient revenue for the City's street construction, operation, and maintenance needs; and

WHEREAS, the City Council has carefully analyzed and implemented ways to cut unnecessary expenditures across the entire City budget. Despite these efforts, the City is unable to fully fund its street construction, operation, and maintenance needs to the level desired by City Council through the general fund with current revenues; and

WHEREAS, the City Council desires to impose utility taxes on the business and utility services of electrical distribution, solid waste disposal service, sanitary sewer service, water service, and natural gas distribution to generate additional revenue that shall be used exclusively for street construction, operation, and maintenance purposes only; and

WHEREAS, the City Council desires to repeal in its entirety the existing chapter 3.70 SVMC since replacement funding is being established for street construction, operation, and maintenance purposes.

NOW, THEREFORE, the City Council of the City of Spokane Valley, Spokane County, Washington, ordains as follows:

Section 1. Intent. - The City of Spokane Valley declares that the intent of this Ordinance is to repeal chapter 3.70 Spokane Valley Municipal Code relating to the existing utility tax on provision of telephone services, and to adopt a new chapter 3.71 SVMC to impose a utility tax on provision of electricity, solid waste disposal, sanitary sewer, water, and natural gas for the express purpose of providing revenue for the City's street construction, operation, and maintenance needs.

Section 2. Repeal chapter 3.70 Spokane Valley Municipal Code. Chapter 3.70 Spokane Valley Municipal Code, Utility Tax, is repealed in its entirety.

Section 3. Adoption of chapter 3.71 Spokane Valley Municipal Code. Chapter 3.71 Spokane Valley Municipal Code, Utility Tax, is adopted as follows:

3.71.010 Definitions. Unless the context clearly indicates otherwise, the words, phrases and terms used in this chapter 3.71 SVMC shall have the following meanings:

“Electrical distribution” means any Person operating a plant or system for the generation, production, or distribution of electrical energy for hire or sale and/or for the wheeling of electricity for others.

"Gross income" means the value proceeding or accruing from the sale of tangible property or service, and receipts (including all sums earned or charged, whether received or not) by reason of investment of capital in the business engaged in (including rentals, royalties, interest and other emoluments however designated) excluding receipts or proceeds from the sale or use of real property or any interest therein and the proceeds from the sale of notes, bonds, mortgages, or other evidences of indebtedness, or stocks and the like and without any deduction on account of the cost of the property sold, cost of materials used, labor costs, interest or discount paid, or any expenses whatsoever, and without any deduction on account of losses. Any deductions from gross income upon which the fee or tax is computed are set forth in SVMC 3.71.050.

“Natural gas distribution” means any Person operating a plant or system for sale, delivery, distribution, or furnishing of natural gas for domestic, business, or industrial consumption.

“Person” means a human being, partnership, corporation, limited liability company, municipality, quasi-municipality, cooperative, and other type of association without limitation, whether acting by themselves or through servants, agents or employees.

“Recyclable materials” means those solid wastes that are separated for recycling or reuse, such as papers, metals, and glass, that are designated as recyclable materials pursuant to the City's Solid Waste Management Plan and any applicable contracts between the City and solid waste service providers.

“Sanitary sewer service” means a Person providing sanitary sewage disposal and facilities including, without limitation, on-site or off-site sanitary sewer facilities consisting of an approved septic tank or septic tank systems, or any other means of sewage treatment and disposal.

“Solid waste” or “wastes” means all putrescible and non-putrescible solid and semi-solid wastes including, but not limited to, garbage, rubbish, ashes, industrial wastes, swill, sewage sludge, demolition and construction waste, abandoned vehicles or parts thereof, and recyclable materials.

“Solid waste disposal service” means any Person who receives solid waste or recyclable materials for transfer, storage, transport, or disposal, including but not limited to all public or private solid waste transfer stations, disposal sites, and similar operations.

“Taxpayer” means any Person liable for the license fee or tax imposed by this chapter 3.71 SVMC.

“Tax Year or Taxable Year” means the calendar year commencing January 1 and ending on December 31.

“Utility service” or “utility services” means any of the businesses, services, and activities engaged in by taxpayers subject to the utility excise tax pursuant to SVMC 3.71.020.

“Water service” means any Person operating a plant or system for the distribution of water for hire or sale through a system of pipes and related facilities.

3.71.020 Utility Tax Levied. There is levied on and shall be collected from every Person, a utility excise tax for the act or privilege of conducting and engaging in the business and utility services of electrical distribution, solid waste disposal service, sanitary sewer service, water service, and natural gas distribution, equal to the gross income of sales from customers within the City, multiplied by the applicable tax rate pursuant to SVMC 3.71.030.

3.71.030 Utility Services Subject to Tax - Rates. The utility excise tax authorized pursuant to SVMC 3.71.020 shall apply to the following utility services, and shall be subject to the rates specified herein:

Electrical distribution -	6%
Solid waste disposal -	6%
Sanitary sewer -	6%
Water distribution -	6%
Natural gas -	6%

3.71.040 Remittance.

(A) Remittance. The utility excise tax imposed and levied pursuant to chapter 3.71 SVMC shall be collected, reported, and remitted to the City on or before the last day of the subsequent month. Each Taxpayer subject to payment of the utility excise tax shall designate in writing to the Finance Director whether it will remit monthly or quarterly, with said designation being provided by January 1, 2017.

(B) Returns. The remittance shall be in legal United States tender and shall be accompanied by a return on a form to be prescribed and provided by the City. The Taxpayer shall swear or affirm in writing on the return that the information therein given is full and true, and that the Taxpayer knows it to be so. Failure to file a return as required herein after engaging in the provision of utility services shall subject the Person to remedies and penalties pursuant to SVMC 3.71.070.

3.71.050 Deductions. In computing the tax imposed by chapter 3.71 SVMC, a deduction from the measure of the utility excise tax may be taken under the following circumstances:

(A) Adjustments made to a billing or customer account by Taxpayer to reverse a billing or charge that was not properly a debt of the customer; or

(B) Uncollectible debts written off the Taxpayer's books during the tax year. If such debts are subsequently collected by Taxpayer, the income shall be reported for the period in which it is collected.

3.71.060 Record Retention Requirements. It shall be the duty of every Taxpayer liable for payment of the utility excise tax pursuant to chapter 3.71 SVMC to keep and preserve for a period of at least five years such books and records as will accurately reflect the amount of Gross Income from the utility services, and from which can be determined the amount of any utility excise tax for which the Taxpayer may be liable under the provisions of chapter 3.71 SVMC. The term "books and records" as used in this section includes but is not limited to copies of the Taxpayer's Federal income tax returns, Federal excise tax returns, state of Washington excise tax returns, and copies of income tax and excise tax audits made by the United States or the state of Washington and furnished to such Taxpayer. The Taxpayer's books and records shall be available for examination at all reasonable times by a representative of the City.

3.71.070 Tax Delinquency -- Unlawful Acts.

(A) Penalties and Interest. For each payment due, if such payment is not made by the due date thereof, there shall be added penalty and interest as follows:

- (1) If paid 1-15 days late, there shall be a penalty of 5% added to the amount of tax due.
- (2) If paid 16-30 days late, there shall be a penalty of 10% added to the amount of tax due.
- (3) If paid 31-60 days late, there shall be a penalty of 15% added to the amount of tax due.
- (4) If paid in excess of 60 days late, there shall be a penalty of 20% added to the amount of tax due.
- (5) In addition to the above penalty, the City shall charge the Taxpayer interest on all utility excise taxes past due at the rate of one percent per 30 days or pro-rated portion thereof from the date such amounts become past due.

(B) Collection. The utility excise tax imposed and levied pursuant to chapter 3.71 SVMC, and all penalties and interest thereon, shall constitute a debt to the City, and may be collected by court proceedings in the same manner as any other debt, which remedy shall be in addition to all other available remedies. Any judgment entered in favor of the City may include an award to the City of all court and collection costs including attorneys' fees to the extent permitted by law. Amounts delinquent more than 60 days may be assigned to a third party for collection, in which case the amount of any collection charges shall be in addition to all other amounts owed. Amounts due shall not be considered paid until the City has received payment for the full amount due or has discharged the amount due and not paid.

(C) Unlawful Acts. It is unlawful for any Taxpayer liable for the utility excise tax imposed and levied pursuant chapter 3.71 SVMC to fail to pay the utility excise tax when due or for any Taxpayer to make any false or fraudulent return or any false statement in connection with the return.

(D) Criminal Penalties. Any Person who intentionally violates any provision of chapter 3.71 SVMC shall be guilty of a misdemeanor and upon conviction thereof punished pursuant to state law or SVMC 8.05.050 as adopted or hereafter amended.

3.71.080 Quitting, Selling, or Transferring Utility Service Business. Whenever any Taxpayer quits a utility service business, or sells out, exchanges, or otherwise disposes of such utility service business, any utility excise tax payable under chapter 3.71 SVMC shall become immediately due and payable, and such Taxpayer shall, within 10 days thereafter, make a return and pay the utility excise tax due. If such tax, interest or penalty has not been paid by the Taxpayer within 10 days from the date of such sale, exchange, or disposal, the successor shall become liable for the payment of the full amount of tax, interest, and penalties, and shall withhold from the purchase price an amount sufficient to pay any utility excise tax, interest, and penalties due from the Taxpayer pursuant to chapter 3.71 SVMC. Nothing in chapter 3.71 SVMC is intended, nor shall it be construed, to prohibit the successor from engaging in business in the City pending resolution of the successor's tax liability from the predecessor in interest.

3.71.090 Tax Not Exclusive. The utility excise tax levied herein shall be additional to any license fee or tax imposed or levied under any other law, including under any provision of the SVMC.

3.71.100 Rate Changes. No change in the rate of utility excise tax upon a Person engaged in furnishing utility services shall apply to such activities occurring before the effective date of the change. Furthermore, except for a change in the tax rate authorized by RCW 35.21.870, no change in the rate of the utility excise tax on a Person engaging in the business of providing utility services may take effect sooner than 60 days following the enactment of the ordinance establishing the change.

3.71.110 Appeal Procedure. Any Taxpayer aggrieved by the amount of the tax found to be required under the provisions of chapter 3.71 SVMC may, upon full payment of the amount assessed, appeal from such finding by filing a written notice of appeal with the City Clerk within 14 days from the date such Taxpayer was notified in writing of such amount. The City Clerk shall promptly transmit the notice of appeal to the Hearing Examiner. The Hearing Examiner shall, as soon as practicable, fix a time and place for the hearing of such appeal, which time shall be not more than 60 days after the filing of the notice of appeal. Any appeal to the Hearing Examiner shall be pursuant to the adopted Hearing Examiner Scheduling Rules and Rules of Conduct, SVMC Appendix B, as applicable. Additionally, the following shall apply to any such appeals:

(A) Participation in appeals shall be limited to appellants, the City, and any relevant witnesses thereof.

(B) The appellant in any such appeal shall have the burden of proof.

(C) A decision by the Hearing Examiner shall be a final administrative action, subject to appeal to Spokane County Superior Court.

3.71.120 Overpayment of Tax. In the event that any Taxpayer makes an overpayment of the utility excise tax owed and, within one year of the date of such overpayment makes application for a refund or credit, the Taxpayer's claims shall be allowed and a refund made by the City upon determination by the City Manager that no other sums are owed by the Taxpayer to the City. In the event other amounts are owed by the Taxpayer, the City may apply the overpayment to those outstanding amounts prior to refund.

3.71.130 Designation of Use of Funds Generated by Utility Tax. All net revenues generated through taxation of utility businesses pursuant to chapter 3.71 SVMC shall be used exclusively for funding City road projects, including but not limited to road construction, operation, maintenance, and

preservation, sidewalks, railroad grade separation, and other similar projects which are directly related to vehicular and pedestrian transportation.

Section 4. Severability. If any section, sentence, clause or phrase of this Ordinance should be held to be invalid or unconstitutional by a court of competent jurisdiction, such invalidity or unconstitutionality shall not affect the validity or constitutionality of any other section, sentence, clause or phrase of this Ordinance.

Section 5. Effective Date. This Ordinance shall be in full force and effect 30 days after date of publication of this Ordinance or a summary thereof in the official newspaper of the City, and pursuant to RCW 35.21.865, the taxes imposed herein shall take effect on January 16, 2017.

PASSED by the City Council of the City of Spokane Valley this _____ day of _____, 2016.

L.R. Higgins, Mayor

ATTEST:

Christine Bainbridge, City Clerk

Approved as to Form:

Office of the City Attorney

Date of Publication: _____

Effective Date: _____

City of Spokane Valley Transportation & Infrastructure Funding – Utility Taxes

Administrative Report

November 1, 2016

Background

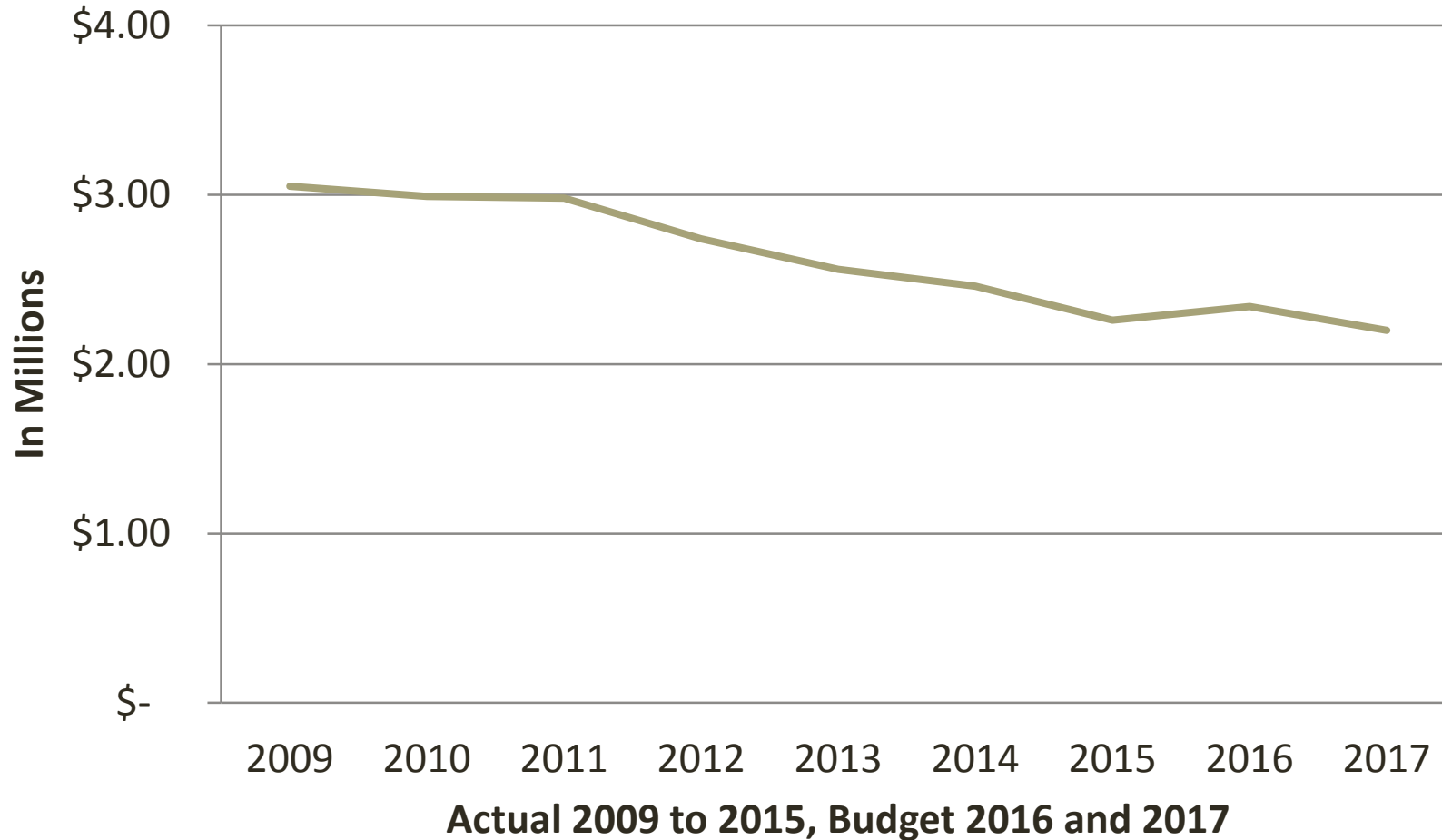
- Council discussion related to funding current and projected future deficits in transportation & infrastructure goes back to 2004.
 - Proposed Utility Tax Ordinance in 2004
 - Did not advance to a 2nd reading.
 - Telephone Utility Tax Ordinance 08-014
- Discussions during 2016:
 - March 15, 2016 – Council Workshop;
 - June 14, 2016 – Budget Workshop;
 - 2017 Budget Development – August 9th, September 13th, September 27th, October 11th, October 25th; and
 - Finance Committee Meetings – May 12th, September 12th, October 10th.

Street Fund #101

- The Street Fund generally accounts for the operations and maintenance of City Streets.
 - Includes street pavement repairs, traffic signals and signs, landscaping and vegetation control, snow and ice control, etc.
- Major Revenue Sources:
 - Motor Vehicle Fuel Tax
 - Telephone Utility Tax
 - Has decreased at an average annual rate of 4.92% since implementation.
 - Currently collected \$135k less in 2016 than the same period in 2015.

Street Fund #101

Telephone Utility Tax



Street Fund #101 - Projection

	Actual 2013	Actual 2014	(1) Actual 2015	Amended Budget 2016	Proposed Budget 2017	Projected				
						2018	2019	2020	2021	
RECURRING ACTIVITY										
Revenues										
Telephone Utility Tax	2,562,722	2,461,060	2,257,184	2,340,000	2,200,000	0	0	0	0	(2)
Alternative Utility Tax	0	0	0	0	0	2,869,965	2,963,969	3,059,853	3,157,654	(3)
Motor Vehicle Fuel (Gas) Tax	1,868,055	1,878,476	1,935,629	2,004,900	2,040,300	2,040,300	2,040,300	2,040,300	2,040,300	
Multimodal Transportation Revenue	0	0	0	0	98,868	98,868	98,868	98,868	98,868	
Right-of-Way Maintenance Fee	0	0	0	50,000	50,000	50,000	50,000	50,000	50,000	
Investment Interest	2,920	2,037	3,212	3,000	4,000	4,000	4,000	4,000	4,000	
Insurance Premiums & Recoveries	1,790	4,204	4,319	0	0	0	0	0	0	
Miscellaneous Revenue	12,911	5,209	9,649	10,000	10,000	10,000	10,000	10,000	10,000	
Total Recurring Revenues	4,448,398	4,350,986	4,209,993	4,407,900	4,403,168	5,073,133	5,167,137	5,263,021	5,360,822	
Expenditures										
Wages / Benefits / Payroll Taxes	582,013	681,165	738,381	734,604	746,872	761,809	777,046	792,587	808,438	(4)
Supplies	108,110	460,844	116,660	111,500	105,000	107,100	109,242	111,427	113,655	
Services & Charges	2,152,294	2,197,089	2,052,457	2,132,754	2,167,151	2,541,994	2,592,834	2,644,691	2,697,584	
Snow Operations	485,717	0	465,232	430,000	468,000	477,360	486,907	496,645	506,578	
Intergovernmental Payments	797,275	876,680	707,967	771,000	796,000	811,920	828,158	844,722	861,616	
Interfund Transfers-out - #001	39,700	39,700	39,700	39,700	39,700	39,700	39,700	39,700	39,700	
Interfund Transfers-out - #311 (pavement preservation)	282,000	282,000	206,618	67,342	67,342	0	0	0	0	(5)
Interfund Transfers-out - #501 (non-plow vehicle rental)	10,777	10,777	12,077	31,000	23,250	23,250	23,250	23,250	23,250	
Interfund Transfers-out - #501 (plow replace.)	150,000	75,000	0	40,000	77,929	70,000	70,000	70,000	70,000	
Signal Detection Replacement Program	0	0	0	0	40,000	40,000	40,000	40,000	40,000	
Traffic Signal Replacement Program	0	0	0	0	200,000	200,000	200,000	200,000	200,000	
Total Recurring Expenditures	4,607,886	4,623,255	4,339,092	4,357,900	4,731,244	5,073,133	5,167,137	5,263,021	5,360,822	
Recurring Revenues over (under)										
Recurring Expenditures	(159,488)	(272,269)	(129,099)	50,000	(328,076)	0	0	0	0	
NONRECURRING ACTIVITY										
	(5,716)	(85,721)	(133,068)	(25,000)	(120,000)	0	0	0	0	
Excess (Deficit) of Total Revenues										
Over (Under) Total Expenditures	(165,204)	(357,990)	(262,167)	25,000	(448,076)	0	0	0	0	
Beginning fund balance	2,228,438	2,063,234	1,705,244	1,443,077	1,468,077	1,020,001	1,020,001	1,020,001	1,020,001	
Ending fund balance	2,063,234	1,705,244	1,443,077	1,468,077	1,020,001	1,020,001	1,020,001	1,020,001	1,020,001	

Assumptions

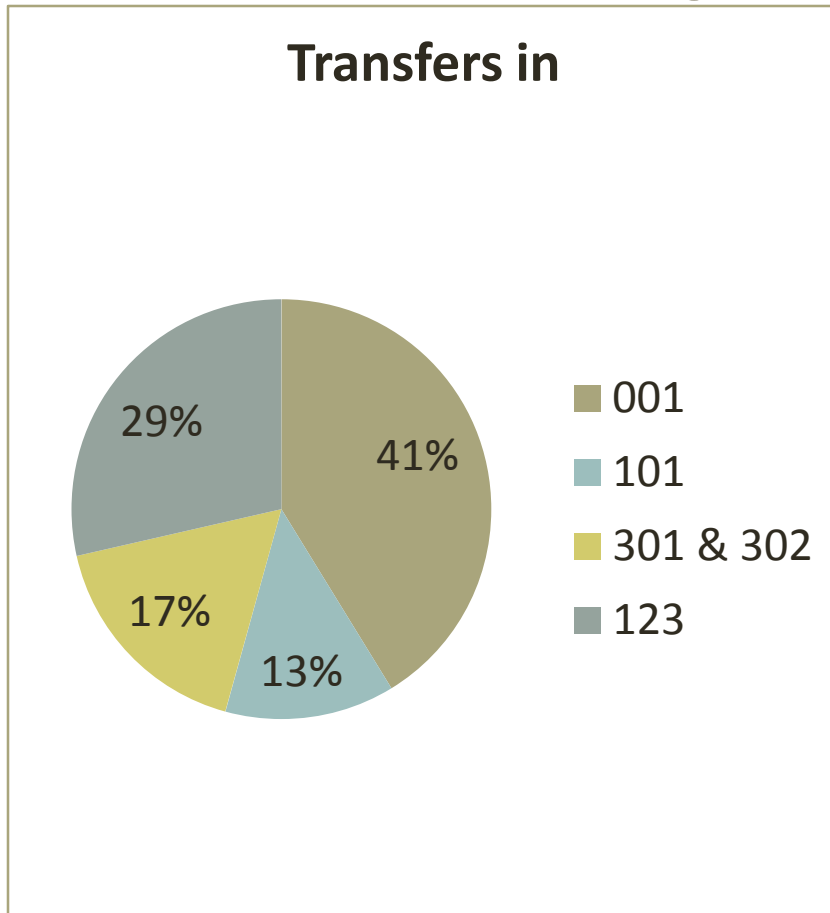
- (1) The actual numbers presented for 2015 are preliminary and unaudited as of July 6, 2016. They are subject to change as we complete the audit process.
- (2) For purposes of this analysis, we assumed that the telephone utility tax will be replaced with a different utility tax revenue stream. As such, telephone utility taxes are projected at \$0 for the years of 2018 through 2021.
- (3) The projection for the alternative utility tax equals the amount necessary to bring recurring revenues to an amount that covers recurring expenditures for the years 2018 through 2021.
- (4) For purposes of this projection, expenditures from 2018 to 2021 are calculated at an increase of 2% annually. The expenditures for 2018 were increased by \$395,000 in order to eliminate service reductions that had taken place in previous years due to budget constraints.
- (5) The Street Fund is assumed to have no contributions to the Pavement Preservation Fund from 2018 to 2021.

Pavement Preservation Fund #311

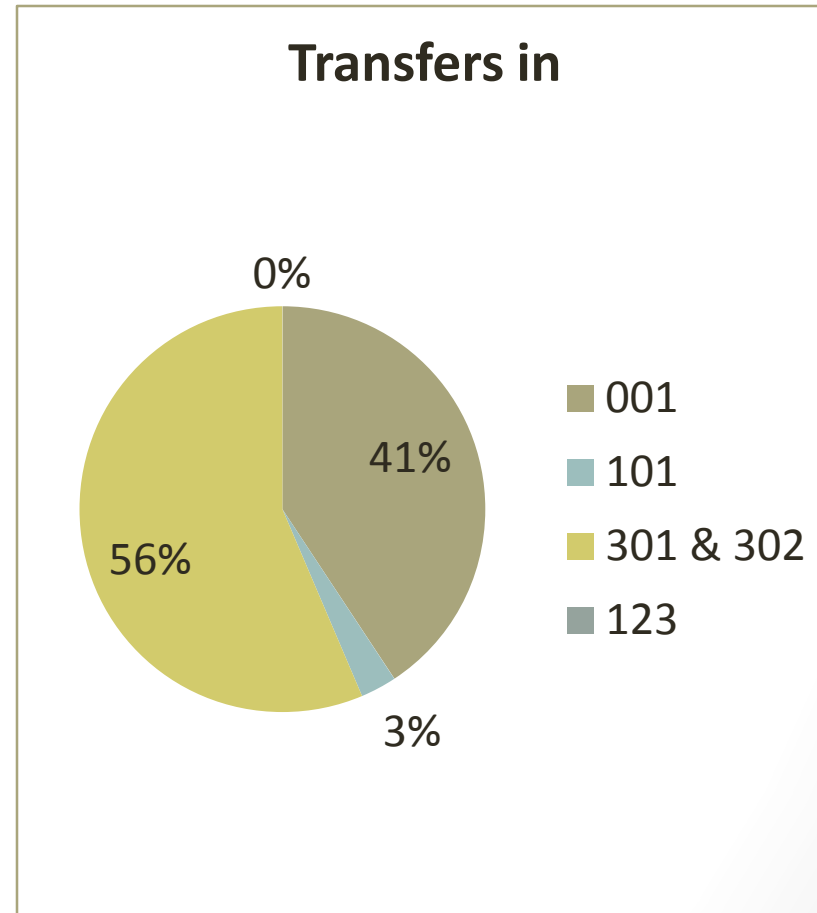
- The Pavement Preservation Fund accounts for pavement preservation projects within the City.
- The City has committed to funding pavement preservation through transfers in an amount equivalent to 6% of General Fund recurring expenditures.
 - Equals about \$2.3 million in the 2017 Budget.
 - Transfers in come from the General Fund #001, Street Fund #101, REET 1 Fund #301, and REET 2 Fund #302.
 - Transfers in from the Civic Facilities Replacement Fund #123 end after 2016.
- The City is committing an increasing amount of REET revenues toward pavement preservation, which is beginning to impact the City's ability to match grant funding for other street projects.
 - Negative REET fund balance projected in 2019.

Pavement Preservation Fund #311

Actual 2014 - #311 Funding



Budget 2017 - #311 Funding



Pavement Preservation Fund #311

	Actual 2013	Actual 2014	(1) Actual 2015	Amended Budget 2016	Proposed Budget 2017	Projected				
						2018	2019	2020	2021	
Revenues										
Alternative Utility Tax	0	0	0	0	0	3,245,800	3,245,800	3,245,800	3,245,800	(2)
Transfers in - #001 General Fund	0	888,823	920,000	943,800	953,200	953,200	953,200	953,200	953,200	(3)
Transfers in - #101 Street Fund	282,000	282,000	206,618	67,342	67,342	0	0	0	0	
Transfers in - #123 Civic Facility Replacement Fund	616,284	616,284	616,284	559,808	0	0	0	0	0	
Transfers in - #301 REET 1	150,000	184,472	251,049	365,286	660,479	200,000	200,000	200,000	200,000	
Transfers in - #302 REET 2	150,000	184,472	251,049	365,286	660,479	200,000	200,000	200,000	200,000	
Grants	35,945	2,042,665	835,224	2,063,000	340,800	1,000,000	1,000,000	1,000,000	1,000,000	
Miscellaneous	2,800	1,903	3,390	0	0	0	0	0	0	
Total revenues	1,237,029	4,200,619	3,083,614	4,364,522	2,682,300	5,599,000	5,599,000	5,599,000	5,599,000	
Total expenditures	1,387,153	3,077,215	2,400,408	4,550,000	3,050,000	5,599,000	5,599,000	5,599,000	5,599,000	(4)
Revenues over (under) expenditures	(150,124)	1,123,404	683,206	(185,478)	(367,700)	0	0	0	0	
Beginning fund balance	948,733	798,609	1,922,013	2,605,219	2,419,741	2,052,041	2,052,041	2,052,041	2,052,041	
Ending fund balance	798,609	1,922,013	2,605,219	2,419,741	2,052,041	2,052,041	2,052,041	2,052,041	2,052,041	
Pavement Preservation Project Totals and Revenues Sources										
Pavement Preservation Fund #311	1,387,153	3,077,215	2,400,408	4,550,000	3,050,000	5,599,000	5,599,000	5,599,000	5,599,000	
General Fund #001	855,841	0	0	0	0	0	0	0	0	
	<u>2,242,994</u>	<u>3,077,215</u>	<u>2,400,408</u>	<u>4,550,000</u>	<u>3,050,000</u>	<u>5,599,000</u>	<u>5,599,000</u>	<u>5,599,000</u>	<u>5,599,000</u>	
Computation of Pavement Preservation Commitment										
General Fund recurring expenditures prior to addition of pavement preservation		33,629,496	37,418,882	38,357,999	38,925,602					
Amount equivalent to 6%		6.00%	6.00%	6.00%	6.00%					
Pavement preservation expenditures		<u>2,017,770</u>	<u>2,245,133</u>	<u>2,301,500</u>	<u>2,335,500</u>					
Components of Pavement Preservation Financing										
#001 General Fund		888,823	920,000	943,800	953,200					
#101 Street Fund		282,000	206,618	67,342	67,342					
#123 Civic Facilities Replacement Fund		616,284	616,284	559,808	0					
#301 Capital Projects Fund		184,472	251,049	365,286	660,479					
#302 Special Capital Projects Fund		184,472	251,049	365,286	660,479					
		<u>2,156,051</u>	<u>2,245,000</u>	<u>2,301,522</u>	<u>2,341,500</u>					
Assumptions										
(1) The actual numbers presented for 2015 are preliminary and unaudited as of June 6, 2016. They are subject to change as we complete the audit process.										
(2) The projection for the alternative utility tax equals the estimated pavement preservation funding needs less other revenue sources for Fund #311.										
(3) For purposes of this analysis, the only assumed revenue streams are the General Fund contribution, REET in the amount of \$400,000/year and average grant proceeds of \$1,000,000/year for the years 2018 through 2021.										
(4) For analysis purposes, we have assumed expenditures equal to revenues.										

Combined #101 and #311

Projected Funding Needs:

Street Fund #101

Pavement Pres Fund #311

Combined Funding Needs

Projected (<i>in millions</i>)			
2018	2019	2020	2021
\$ 2.9	\$ 3.0	\$ 3.1	\$ 3.2
3.2	3.2	3.2	3.2
\$ 6.1	\$ 6.2	\$ 6.3	\$ 6.4

Utility Taxes

- Utility tax limited by state law to 6% (without voter approval) for:
 - Electricity
 - Natural gas
 - Steam
 - Telephone
- Utility tax NOT limited by state law for:
 - Sewer/Stormwater
 - Solid waste
 - Water
 - Cable television (cannot be discriminatory)

Utility Taxes

- There are no statutory limitations on the use of utility tax revenues.
- Any changes in the tax rate cannot take effect until the end of 60 days after the enactment of an ordinance by the City.
- Taxation of Other Municipalities
 - Clarified through a court case in 2014 that a city may impose utility taxes on other jurisdictions if they are acting in a proprietary capacity.

Utility Taxes

Revenue Estimates

	1% Utility Tax	2% Utility Tax	3% Utility Tax	4% Utility Tax	5% Utility Tax	6% Utility Tax
Electric Services	\$762,811	\$1,525,621	\$2,288,432	\$3,051,243	\$3,814,053	\$4,576,864
Natural Gas Services	261,662	523,325	784,987	1,046,649	1,308,312	1,569,974
Sewer Services	140,827	281,654	422,482	563,309	704,136	844,963
Solid Waste Disposal Services	60,566	121,132	181,698	242,264	302,830	363,396
Water	68,813	137,627	206,440	275,253	344,066	412,880
	<u>\$1,294,679</u>	<u>\$2,589,359</u>	<u>\$3,884,039</u>	<u>\$5,178,718</u>	<u>\$6,473,397</u>	<u>\$7,768,077</u>

Utility Taxes

Comparison to Neighboring Jurisdictions

Municipality	Electricity	Natural Gas	Telephone	Cable TV	Solid Waste	Water	Sewer
Spokane	6.0%	6.0%	6.0%	6.0%	20.0%	20.0%	20.0%
Liberty Lake	3.0%	3.0%	3.0%	3.0%	3.0%	0.0%	0.0%
Cheney	(1)	(1)	6.0%	5.0%	6.0%	11.0%	11.0%
Deer Park	6.0%	6.0%	6.0%	6.0%	12.0%	12.0%	12.0%
Airway Heights	6.0%	6.0%	6.0%	3.0%	10.0%	19.8%	15.0%
Pullman	8.0%	8.0%	8.0%	8.0%	11.0%	8.0%	8.0%
Millwood	6.0%	2.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Spokane Valley - Current	0.0%	0.0%	6.0%	0.0%	0.0%	0.0%	0.0%
Spokane Valley - Proposed	6.0%	6.0%	0.0%	0.0%	6.0% (2)	6.0%	6.0%
(1) Rates are 6% for Regular, 4% for Residential Street and 4.75% for Parks.							
(2) Solid Waste utility tax just proposed for disposal services (not collection services).							
<i>Note:</i> Utility tax rates for other jurisdictions were taken from the AWC 2015 Municipal Taxes and Fees Survey, which was obtained at https://www.awcnet.org/DataResources/resourcesbytopic/TaxandUserFeeSurvey.aspx or from the municipal code of the jurisdiction.							

Draft utility tax ordinance

- Draft Ordinance repeals chapter 3.70 Spokane Valley Municipal Code, Utility Tax, in its entirety.
 - This eliminates the current 6% utility tax on telephone services.

Draft utility tax ordinance

- 3.71.010 - definition section.
- 3.71 .020 – establishes a utility tax on provision of the following services:
 - electrical distribution
 - solid waste disposal
 - sanitary sewer
 - water
 - natural gas distribution
- 3.71.030 – establishes the rate at which the tax would apply at 6% for each of the taxed services.

Draft utility tax ordinance

- 3.71.040 – requires submittal of a monthly report for each entity providing such services to document taxable activity.
- 3.71.050 – providers will be allowed to deduct certain amounts from gross income that will not be taxed.
- 3.71.060 – addresses record retention requirements to be able to document gross income for purposes of calculating the tax so that the City may perform appropriate audits.
- 3.71.070 – establishes penalties for utility companies failing to pay the taxes on time, that the City may collect past due amounts in any manner authorized by law, and that intentional non-payment of taxes due is a criminal violation.

Draft utility tax ordinance

- 3.71.080 – in the event a utility company quits doing business, or consolidates with another entity, the taxes due and owing before such an act are still due and owing to City.
- 3.71.090 – utility taxes due under this chapter are in addition to any other fee due under SVMC or other applicable law.
- 3.71.100 – any future rate changes may only occur after at least 60 days notice under state law.
- 3.71.110 – any utility provider believing it has been assessed an incorrect amount of taxes may appeal to the City Hearing Examiner.

Draft utility tax ordinance

- 3.71.120 – if a utility company believes it paid too much in tax based on its gross income, it can request a refund of the overpayment.
- 3.71.130 – requires that all revenue generated from these utility taxes shall be “exclusively used for funding City road projects, including but not limited to road construction, operation, maintenance, and preservation, sidewalks, railroad grade separation, and other similar projects which are directly related to vehicular and pedestrian transportation.”

Questions?