2014 Budget Suggestions

Municipal Research and Services Center

August 2013

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Budget Suggestions for 2014

MRSC's mission is WORKING TOGETHER for excellence in local government through professional consultation, research and information services.

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Introduction

Here is your copy of *Budget Suggestions for 2014*. This is the 44th year that this publication has been produced by MRSC. From 1944-1970, *Budget Suggestions* was published by our predecessor organization, the Bureau of Governmental Research at the University of Washington.

In this publication you will find:

- Descriptions and interpretations of 2013 legislation that may affect your budget.
- Inflation and state-shared revenue forecasts, including a discussion of the legislation that affects the amount of liquor excise tax you will receive. The 2013-2015 state budget contains some contradictory sections on the liquor excise tax distributions and we provide you with per capita estimates for the alternative views.
- An article on biennial budgeting by Mike Bailey, Finance Director of Redmond.
- An article by Hugh Spitzer of Foster Pepper on SHB 1512, the legislation that clarifies when water providers may allocate the costs of transmission systems, hydrants and other “fire suppression water facilities” to their customers.
- Two articles that address your questions on the 2013 lodging tax legislation – one from MRSC and one from the staff of the Association of Washington Cities.
- A section on the latest initiatives.

Judy Cox, our Public Finance Consultant, is the author of much of the material in this publication. Holly Stewart designed and produced the document. Carol Tobin, Connie Elliot, and Erica Zwick proofed or edited sections. And, we thank our outside contributors noted above for their assistance. We hope this material will assist you as you go through the budget process and into 2014.

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Budget Calendar for Preparation of 2014 Budgets

in First (Under 300,000), Second, and Fourth Class Municipalities and Code Cities

Budget requirements for first (under 300,000) and second class municipalities, and towns are listed in chapter 35.33 RCW, as amended, and for cities under the Optional Municipal Code in chapter 35A.33 RCW, as amended. Chapter 35.32A RCW contains the budget law for cities over 300,000 population (Seattle).

Chapters 35.34 RCW and 35A.34 contain the provisions for a biennial budget. Thus far only a few cities are using the two-year budget process. Please see last page of budget calendar.

Major Steps in Budget Preparation	State Law Time Limitations	Actual 2013 Date
1. Request by clerk to all department heads and those in charge of municipal offices to prepare detailed estimates of revenues and expenditures for next fiscal year (calendar year). RCW 35.33.031 & 35A.33.030.	By second Monday in September.[1, 2]	September 9
2. Estimates are to be filed with the clerk. RCW 35.33.031 & 35A.33.030.	By fourth Monday in September.[2]	September 23
3. Estimates are presented to the chief administrative officer (CAO) for modifications, revisions or additions. Clerk must submit to CAO proposed preliminary budget setting forth the complete financial program, showing expenditures requested by each department and sources of revenue by which each such program is proposed to be financed. RCW 35.33.051 & 35A.33.050.	On or before the first business day in the third month prior to beginning of the fiscal year.	October 1

[1]RCW 35.33.031 actually provides "on **or before** the second Monday of the fourth month," etc. Therefore, pursuant to the state budget law, that step (and certain others) could be taken before the dates listed here. See also, RCW 35A.33.030.

[2]Or at such other time as the city or town may provide by ordinance or charter (RCW 35.33.031 and .051 and 35A.33.030 and .050).

Major Steps in Budget Preparation	State Law Time Limitations	Actual 2013 Date
4. CAO provides the legislative body with current information on estimates of revenues from all sources as adopted in the budget for the current year. CAO also provides the legislative body with the clerk's proposed preliminary budget setting forth the complete financial program, showing expenditures requested by each department and sources of revenue by which each such program is proposed to be financed. RCW 35.33.135 & 35A.33.135.	No later than the first Monday in October.	October 7
5. The legislative body must hold a public hearing on revenue sources for the coming year's budget, including consideration of possible increases in property tax revenues. RCW 84.55.120. After the hearing, a city may choose to pass an ordinance at the same meeting authorizing a property tax increase in terms of dollars and percent to comply with Referendum 47.	Before legislative body votes on property tax levy. Deadlines for levy setting are in item 8 below.	
6. CAO prepares preliminary budget and budget message[3] and files with the city legislative body and city clerk. RCW 35.33.055 & 35A.33.052.	At least 60 days before the ensuing fiscal year.	November 1
7. Clerk publishes notice that preliminary budget has been filed and publishes notice of public hearing on final budget once a week for two consecutive weeks. RCW 35.33.061 & RCW 35A.33.060.	No later than the first two weeks in November.	November 1 through November 15
8. Setting property tax levies. Ch. 52, Laws of 2005, HB 1048 and RCW 84.52.070.	November 30 for ***all*** cities and towns.	
9. The legislative body, or a committee thereof, must schedule hearings on the budget or parts of the budget and may require the presence of department heads. RCW 35.33.057 & 35A.33.055.	Prior to the final hearing.	November 4 through 30 (suggested)
10. Copies of preliminary budget made available to the public. RCW 35.33.055 & 35A.33.052.	No later than six weeks before January 1.	November 19

[3]RCW 35.33.031 and RCW 35A.33.055 specify that the budget message must contain the following:

1. An explanation of the budget document;
2. An outline of the recommended financial policies and programs of the city for the ensuing fiscal year;
3. A statement of the relation of the recommended appropriation to such policies and programs;
4. A statement of the reason for salient changes from the previous year in appropriation and revenue items;
5. An explanation for any recommended major changes in financial policy.

Major Steps in Budget Preparation	State Law Time Limitations	Actual 2013 Date
11. Final hearing on proposed budget. RCW 35.33.071 & 35A.33.070.	On or before first Monday of December, and may be continued from day-to-day but no later than the 25th day prior to next fiscal year (December 7).	December 2
12. Adoption of budget for 2014. RCW 35.33.075 & 35A.33.075.	Following the public hearing and prior to beginning of the ensuing fiscal year.	Day of your public hearing through December 31.
13. Copies of final budget to be transmitted to the State Auditor's Office and to MRSC.		After adoption

Biennial Budgets

All cities and towns that wish to begin budgeting on a biennial basis must pass an ordinance to that effect six months prior to the beginning of the fiscal year. The first year of a biennial budget must be an odd-numbered year. **The next year in which you can start a biennial budget will be 2015. If you are planning to do a biennial budget for 2015-2016, remember that you must pass your ordinance by June 30, 2014.** Next year's issue of Budget Suggestions will not come out until late July, so a reminder will not do much good then. That is why we have an article on biennial budgets in this publication, starting on page 33.

The calendar for the initial preparation of a biennial budget is almost identical to that of an annual budget with some obvious differences, such as the substitution of "biennium" for "year." RCW 35.34.130 and RCW 35A.34.130 require that an ordinance be passed providing for a mid-biennial review and modification of the biennial budget. This must occur no sooner than eight months after the start (September 1, 2013) nor later than the end of the first year of the biennium (December 31, 2013). Notice and hearings are required as outlined in RCW 35.34.130 or RCW 35A.34.130. A complete copy of the budget modification, as adopted by ordinance, must be sent to MRSC and the State Auditor's Office.

Share Your Information Resources Through MRSC

In addition to the copies of the final budget you send to the State Auditor, please send copies to MRSC at:

Municipal Research and Services Center of Washington
2601 Fourth Ave, Suite 800 • Seattle, WA 98121-1280

We would also like other documents of general application to share with other cities and towns. The list of things we would like includes: ordinances; forms (tax, business license, job application, etc.); policies and procedures manuals (if you don't have a complete manual, but you do have bits and pieces, send those); job descriptions; interlocal agreements; examples of requests for proposals for anything; contracts; franchise agreements. In short, just about everything that is needed to run a city or town.

Budget Calendar for Preparation of 2014 Budgets

for Non-Charter Counties

The annual budget time-line requirements for non-charter counties in Washington are found in Chapter 36.40 RCW. According to RCW 36.40.071, the board of commissioners may set alternative dates for entire process to conform with the alternative preliminary budget hearing date.

Major Steps in Budget Preparation	State Law Time Limitations	Actual 2013 Date
1. Call for Estimates. County Auditor notifies all officials to file budget requests and projected revenues for ensuing fiscal year. RCW 36.40.010.	On or before the second Monday in July	July 8
2. Filing of estimates with auditor or chief financial officer by all officials. RCW 36.40.010 and 36.40.030.	On or before the second Monday in August	August 12
3. Preliminary county budget prepared by auditor or chief financial officer submitted to board of commissioners. RCW 36.40.040 and 36.40.050.	On or before the first Tuesday in September	September 3
4. Preliminary budget hearing by board of commissioners. RCW 36.40.070.	First Monday in October	October 7
5. Alternative preliminary budget hearing by board of commissioners. RCW 36.40.071.	First Monday in December	December 2
6. Final budget adoption by board of commissioners. RCW 36.40.080.	Upon conclusion of budget hearing	Practically, December 31

Biennial Budgets (RCW 36.40.250)

Counties can start a biennial budget in any year. They are not limited to an odd-numbered year as cities are. And, their biennial budget statute gives no indication of when the ordinance or resolution providing for a biennial budget must be passed. From a practical standpoint, it probably needs to be done during the first half of the year so that departments can prepare the estimates that are due to the auditor in August.

2013 Legislation That May Affect Your Budget

Most Uses of Lodging Tax Revenues Are Preserved (ESHB 1253, Ch. 196, Laws of 2013)

See the discussion of this bill on pages 46-52.

Funding Fire Hydrant Costs (SHB 1512, Ch. 127, Laws of 2013)

See the article on this bill by Hugh Spitzer, starting on page 56.

Fleet Conversion Bill Offers Some Relief from Alternative Fuel Mandates (ESB 5099, Ch. 328, Laws of 2013)

Effective June 1, 2018, RCW 43.19.648(2) requires all local governments, to the extent deemed practicable by the Department of Commerce rules, to use electricity or biofuels to satisfy 100 percent of their fuel usage for operating vessels, vehicles, and construction equipment.

This bill provides some modifications and exemptions to that mandate. The Department of Commerce must convene an advisory panel to work with the department to develop the rules. The panel must include representatives of local government subdivisions and organizations representing these subdivisions, and an electric utility or a gas utility or both.

The rules must provide authority for local governments to choose to exempt police, fire, and other emergency response vehicles from the fuel usage requirement if the local government notifies the Department of Commerce, giving its rationale and an explanation of how the exemption fits within the rules.

Engine retrofits that would void warranties are also exempt from this requirement. And, no equipment would have to be replaced before the end of this useful life. If a local government purchases, before June 1, 2018, new vehicles that are capable of using biodiesel fuels, they have a requirement to meet regarding the vehicles ' warranties. They must request warranty protection for the highest level of biodiesel the vehicle is capable of using, as long as the costs are reasonably equal to a warranty for a lower level of biodiesel usage.

New Options for County Developmental Disabilities and Mental Health Levy and Veteran's Assistance Fund Levy (ESHB 1432, Ch. 123, Laws of 2013)

Counties are required to levy (as part of their regular property tax levy for the general or current expense fund) monies for developmental disabilities and mental health services and veteran's assistance. RCW 71.20.110 stated that this amount had to be no less than 2.5 cents per thousand dollars assessed valuation (AV) for developmental disabilities and mental health. For veteran's assistance, RCW 73.08.080 set the minimum amount at 1.125 cents per thousand dollars AV.[1]

Snohomish County pointed out that the mechanics of the law penalized a county that kept its general fund levy the same from one year to the next, banking the unused levy capacity for future use. Its assessed valuation was increasing, so the levies for developmental disabilities/mental health and veteran's assistance also were increasing since they were set at a certain number of cents per thousand AV. But, with the overall general fund levy being held constant, that meant the amount of money available for all the other uses of the general fund levy (e.g., criminal justice, etc.) was decreasing.

This bill amended the statutes to provide an alternative to using the 2.5 cents and 1.125 cents per thousand AV.

- If general fund[2] levy is decreased from the preceding year, then the levies for developmental disabilities/mental health and veteran's assistance may be reduced by the same percent or less.

- If the general fund levy remains the same as that of the preceding year, then the levies for developmental disabilities/mental health and veteran's assistance may be set at the same dollar amount or higher.

- If the general fund levy is increased, then the levies for developmental disabilities/mental health and veteran's assistance must be increased by the same percent unless the increase is due to the passage of a levy lid lift under RCW 84.55.050 that is dedicated to a specific purpose.

Bid Awards and Sales Taxes (ESSB 5110, Ch. 25, Laws of 2013)

Local governments may now award contracts for supplies, materials, and equipment to the lowest bidder before the inclusion of sales tax if notice is given in advance. This legislation was requested by some local governments with high sales tax rates. They had found that their local vendors were at a disadvantage in the bidding process compared to vendors in lower tax rate jurisdictions for goods for which the sales tax rate is based on the place the sale originates – primarily vehicles. Passage of this law will allow them to buy locally.

Fire Districts May Use a Lower Voter Approval Percentage for Continuation of Benefit Charges (SSB 5332, Ch. 49, Laws of 2013)

This bill amends RCW 52.18.050 to set the voter approval percentage at 60 percent of the voters at the general or special election for the initial imposition of a benefit charge for six years or less.

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[1]There is a provision in RCW 73.08.080(2) where a lesser amount may be levied.

[2]The amended statutes in the bill refer to the "certified levy" and reference RCW 84.52.070. This is, of course, just another term for the regular tax levy for the general (current expense) fund.

It adds a provision that lowers the voter approval percentage to a simple majority for a continued imposition of a benefit charge. The statute contains sample ballot language for each situation.

Residential Telephone Service Is Now Subject to the Sales Tax (2E2SHB 1971, Ch. 8 , Laws of 2013, 2nd sp. sess.)

The section of this legislation of particular interest to cities and counties is Section 107, which amends RCW 82.08.0289 to eliminate the sales tax exemption for residential telephone service. New tax receipts to both cities and counties are estimated in the Local Government Fiscal Note to be approximately $5.3 million in FY 2013-2015 and $10.50 million in future biennia.

In addition, AWC offered the following observation in its *Final Legislative Bulletin* on July 15:

> But perhaps even more importantly, the bill's retroactive provisions address the issues raised in the 2011 *Sprint Spectrum v. Washington State Department of Revenue* case. Those issues may have required local governments to issue an estimated $249.5 million in sales tax refunds to telephone service providers. This was a much needed fix to an ongoing and expensive problem facing the state and local governments.

Inflation Forecast

Consumer Price Index

The Consumer Price Index (CPI) is a measure of the change in prices paid over time for a fixed "market basket" of goods and services. The Consumer Price Index for All Urban Consumers (CPI-U) measures the percentage change in prices faced by urban consumers and covers approximately 87 percent of the population. The Consumer Price Index for Wage Earners and Clerical Workers (CPI-W) is sometimes referred to as the "blue collar measure." It is a subset of the CPI-U. Its market basket reflects the expenditures of urban households that derive more than half their income from clerical and hourly wage jobs. It covers approximately 32 percent of the population.

Data for each of these indices for the United States as a whole are compiled on a monthly basis. The results are available during the third week of the following month. Each of these indices is published for the Portland-Salem area (formerly called the Portland-Vancouver index) twice a year. The results for the first half of the year are available during the third week of August. The second half figures are published in the third week of February. At the beginning of 1998, the Seattle-Tacoma index was renamed the Seattle-Tacoma-Bremerton index and expanded to include Island, Kitsap, and Thurston counties. It is compiled six times a year, in the even-numbered months. The results are published in the middle of the following month.

The Bureau of Labor Statistics recommends the use of one of the national indices for all contracts. Not only are the Seattle-Tacoma-Bremerton and Portland-Salem versions published less frequently, they also are based on a smaller sample and are, therefore, more volatile and subject to measurement error. **None** of these indices measures price changes in rural areas. But realizing that towns in rural areas need some indicator to use, we recommend one of the U.S. indices. Always write your contracts so that you will be adjusting on the basis of actual CPI figures. Never use estimates for contract adjustments.

A link to the most recent releases can be found at http://www.bls.gov/ro9/currentpc.pdf. Questions may be directed to BLSinfoSF@BLS.GOV or (415) 625-2270.

Table 1 on the following pages gives monthly historical information on the U.S. CPI-U and CPI-W, bimonthly data for Seattle, semiannual data for Seattle and Portland, and annual averages. The graphs on page 10 give historical information on the **annual average** CPI-U and CPI-W for the U.S., Seattle, and Portland, as well as some forecasts for 2013 and 2014.

We have forecasts for the national inflation rates from the Research Seminar in Quantitative Economics at the University of Michigan, Global Insight, the Livingston Survey from the Federal Reserve Bank of Philadelphia, and the Washington State Economic and Revenue Forecast Council. The Forecast Council uses the Global Insight estimate and the estimate of the Blue Chip consensus forecast for its forecast of the national CPI and we have used that as a guide. For the Seattle-Tacoma area, we depend on the Forecast Council and local economists. We are unable to get forecasts for the Portland area.

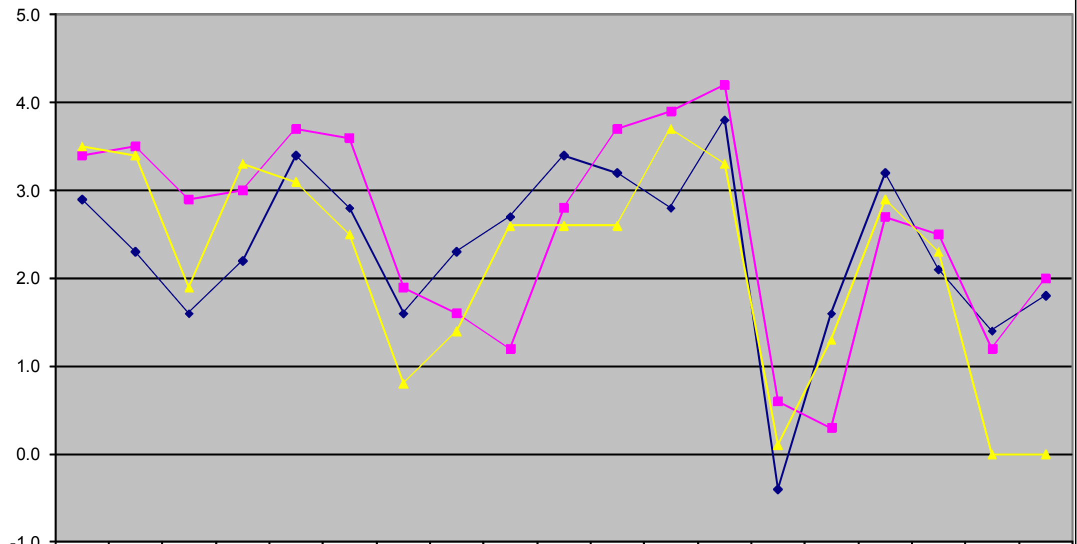
Last year, in this section, we wrote the following:

> The Fed (Federal Reserve Board) is currently under pressure from Congress to "do something"to increase the growth rate and lower the unemployment rate. However, monetary policy cannot directly affect employment and economic growth. It can only create conditions in financial markets that are conducive to a higher rate of growth and a lower unemployment rate. After more than three years of monetary expansion, both short-term and long-term interest rates are near all-time lows. Exhorting the Fed to push still more money out the door may not have the hoped-for effect if banks do not want to lend and if households and businesses show little interest in borrowing.

That is a pretty good description of where matters stand today. Federal Reserve Board Chairman Ben Bernanke spoke at a hearing of the House Financial Services Committee on July 17. He said the Fed was going to continue its "easy money" policies as long as inflation remains low and as long as the unemployment rate stays above 6.5 percent (currently it is 7.6 percent). However, he also said the Fed may keep the federal funds rate low ("easy money") even if the jobless rate falls below 6.5 percent. This unemployment rate goal seems to be a moving target and a somewhat distant one. Most economists do not expect the unemployment rate to fall to 6.5 percent until sometime in 2015.

Even though we stand behind what we said last year – "One of these days all this money sloshing around has to result in higher rates of inflation" – that "day" won't probably won't occur in the next 18 months. In the meantime, easy money policies will continue to keep interest rates low, which is good if you want to borrow, but not so good if you are trying to use your investable funds to generate revenue.

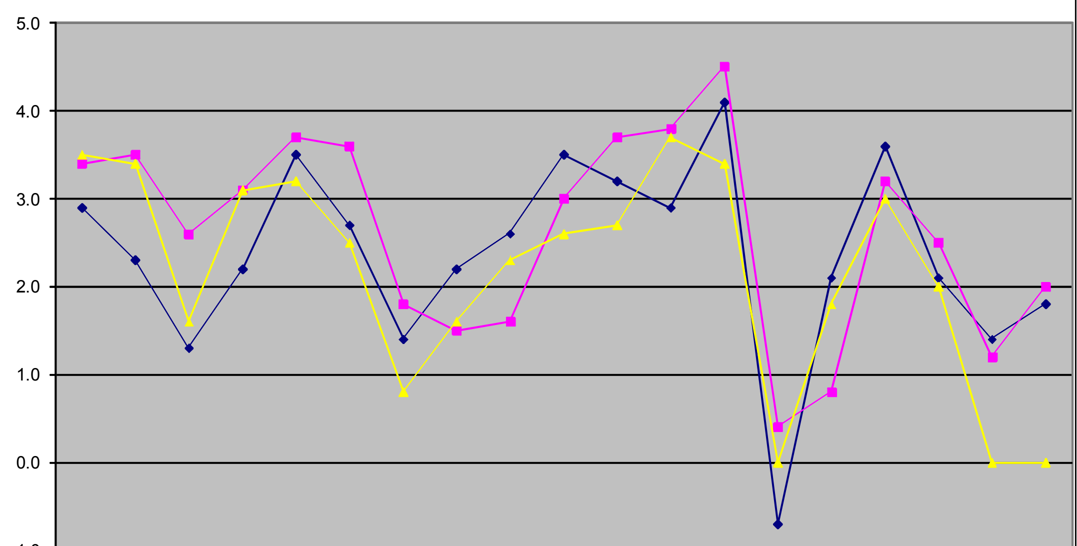
CPI-U - % Change Calendar Years 1996-2014



	96	97	98	99	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
U.S.	2.9	2.3	1.6	2.2	3.4	2.8	1.6	2.3	2.7	3.4	3.2	2.8	3.8	-0.4	1.6	3.2	2.1	1.4	1.8
Seattle	3.4	3.5	2.9	3.0	3.7	3.6	1.9	1.6	1.2	2.8	3.7	3.9	4.2	0.6	0.3	2.7	2.5	1.2	2.0
Portland	3.5	3.4	1.9	3.3	3.1	2.5	0.8	1.4	2.6	2.6	2.6	3.7	3.3	0.1	1.3	2.9	2.3	NA	NA

Figures for 2013-2014 are estimates.

CPI-W - % Change Calendar Years 1996-2014



	96	97	98	99	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
U.S.	2.9	2.3	1.3	2.2	3.5	2.7	1.4	2.2	2.6	3.5	3.2	2.9	4.1	-0.7	2.1	3.6	2.1	1.4	1.8
Seattle	3.4	3.5	2.6	3.1	3.7	3.6	1.8	1.5	1.6	3.0	3.7	3.8	4.5	0.4	0.8	3.2	2.5	1.2	2.0
Portland	3.5	3.4	1.6	3.1	3.2	2.5	0.8	1.6	2.3	2.6	2.7	3.7	3.4	0.0	1.8	3.0	2.0	NA	NA

Figures for 2013-2014 are estimates.

Table 1
Consumer Price Index
2000 to Present

		All Urban Consumers (CPI-U)			Urban Wage Earners & Clerical Workers (CPI-W)		
Year	Month	Seattle	Portland	U.S.	Seattle	Portland	U.S.
2000	January			168.8 (2.7%)			165.6 (2.9%)
	February	176.1 (3.2)		169.8 (3.2)	171.6 (3.4)		166.5 (3.4)
	March			171.2 (3.8)			167.9 (4.0)
	April	177.7 (3.2)		171.3 (3.0)	173.3 (3.2)		168.0 (3.3)
	May			171.5 (3.2)			168.2 (3.3)
	June	179.2 (3.8)		172.4 (3.7)	174.5 (3.9)		169.2 (3.9)
First half ‘00		177.3 (3.3)	176.4 (3.3)		172.8 (3.5)	171.8 (3.4)	
	July			172.8 (3.7)			169.4 (3.9)
	August	180.3 (4.0)		172.8 (3.4)	175.4 (3.9)		169.3 (3.4)
	September			173.7 (3.5)			170.4 (3.5)
	October	182.1 (4.2)		174.0 (3.4)	177.5 (4.3)		170.6 (3.4)
	November			174.1 (3.4)			170.9 (3.5)
	December	181.5 (4.1)		174.0 (3.4)	177.0 (4.1)		170.7 (3.4)
Second half ‘00		181.1 (4.1)	179.5 (2.9)		176.4 (4.1)	174.6 (2.9)	
ANNUAL AVE.		179.2 (3.7)	178.0 (3.1)	172.2 (3.4)	174.6 (3.7)	173.2 (3.2)	168.9 (3.5)
2001	January			175.1 (3.7%)			171.7 (3.7%)
	February	184.0 (4.5)		175.8 (3.5)	179.2 (4.4)		172.4 (3.5)
	March			176.2 (2.9)			172.6 (2.8)
	April	184.2 (3.6)		176.9 (3.3)	179.4 (3.5)		173.5 (3.3)
	May			177.7 (3.6)			174.4 (3.7)
	June	186.3 (4.0)		178.0 (3.2)	181.3 (3.9)		174.6 (3.2)
First half ‘01		184.4 (4.0)	181.2 (2.7)		179.6 (3.9)	176.4 (2.7)	
	July			177.5 (2.7)			173.8 (2.6)
	August	186.8 (3.6)		177.5 (2.7)	181.5 (3.5)		173.8 (2.7)
	September			178.3 (2.6)			174.8 (2.6)
	October	187.9 (3.2)		177.7 (2.1)	183.1 (3.2)		174.0 (2.0)
	November			177.4 (1.9)			173.7 (1.6)
	December	186.1 (2.5)		176.7 (1.6)	181.1 (2.3)		172.9 (1.3)
Second half ‘01		186.9 (3.2)	183.6 (2.3)		181.9 (3.1)	178.5 (2.2)	
ANNUAL AVE.		185.7 (3.6)	182.4 (2.5)	177.1 (2.8)	180.8 (3.6)	177.5 (2.5)	173.5 (2.7)
2002	January			177.1 (1.1%)			173.2 (0.9%)
	February	187.6 (2.0)		177.8 (1.1)	182.5 (1.8)		173.7 (0.8)
	March			178.8 (1.5)			174.7 (1.2)
	April	188.8 (2.5)		179.8 (1.6)	183.6 (2.3)		175.8 (1.3)
	May			179.8 (1.2)			175.8 (0.8)
	June	189.4 (1.7)		179.9 (1.1)	184.1 (1.5)		175.9 (0.7)
First half ‘02		188.3 (2.1)	183.5 (1.3)		183.1 (1.9)	178.7 (1.3)	
	July			180.1 (1.5)			176.1 (1.3)
	August	190.3 (1.9)		180.7 (1.8)	184.8 (1.8)		176.6 (1.6)
	September			181.0 (1.5)			177.0 (1.3)
	October	190.9 (1.6)		181.3 (2.0)	185.5 (1.3)		177.3 (1.9)
	November			181.3 (2.2)			177.4 (2.1)
	December	190.0 (2.1)		180.9 (2.4)	184.6 (1.9)		177.0 (2.4)
Second half ‘02		190.3 (1.8)	184.0 (0.2)		184.9 (1.6)	179.3 (0.4)	
ANNUAL AVE.		189.3 (1.9)	183.8 (0.8)	179.9 (1.6)	184.0 (1.8)	179.0 (0.8)	175.9 (1.4)
2003	January			181.7 (2.6%)			177.7 (2.6%)
	February	191.3 (2.0)		183.1 (3.0)	186.2 (2.0)		179.2 (3.2)
	March			184.2 (3.0)			180.3 (3.2)
	April	192.3 (1.9)		183.8 (2.2)	187.0 (1.9)		179.8 (2.3)
	May			183.5 (2.1)			179.4 (2.0)
	June	191.7 (1.2)		183.7 (2.1)	185.7 (0.9)		179.6 (2.1)
First half ‘03		191.6 (1.8)	186.0 (1.4)		186.2 (1.7)	181.7 (1.7)	
	July			183.9 (2.1)			179.6 (2.0)
	August	194.4 (2.2)		184.6 (2.2)	188.2 (1.8)		180.3 (2.1)

		All Urban Consumers (CPI-U)			Urban Wage Earners & Clerical Workers (CPI-W)		
Year	Month	Seattle	Portland	U.S.	Seattle	Portland	U.S.
	September			185.2 (2.3)			181.0 (2.3)
	October	193.7 (1.5)		185.0 (2.0)	187.8 (1.2)		180.7 (1.9)
	November			184.5 (1.8)			180.2 (1.6)
	December	191.0 (0.5)		184.3 (1.9)	185.3 (0.4)		179.9 (1.6)
Second half ‘03		193.1 (1.5)	186.5 (1.4)		187.1(1.2)	182.0 (1.5)	
ANNUAL AVE.		192.3 (1.6)	186.3 (1.4)	184.0 (2.3)	186.7 (1.5)	181.8 (1.6)	179.8 (2.2)
2004	January			185.2 (1.9%)			180.9 (1.8%)
	February	193.5 (1.2)		186.2 (1.7)	187.8 (0.9)		181.9 (1.5)
	March			187.4 (1.7)			182.9 (1.4)
	April	194.3 (1.0)		188.0 (2.3)	189.1 (1.1)		183.5 (2.1)
	May			189.1 (3.1)			184.7 (3.0)
	June	195.3 (1.9)		189.7 (3.3)	190.4 (2.5)		185.3 (3.2)
First half ‘04		194.0 (1.3)	189.8 (2.0)		188.7 (1.3)	184.9 (1.8)	
	July			189.4 (3.0)			184.9 (3.0)
	August	194.6 (0.1)		189.5 (2.7)	189.6 (0.7)		185.0 (2.6)
	September			189.9 (2.5)			185.4 (2.4)
	October	196.5 (1.4)		190.9 (3.2)	191.6 (2.0)		186.5 (3.2)
	November			191.0 (3.5)			186.8 (3.7)
	December	195.1 (2.1)		190.3 (3.3)	190.3 (2.7)		186.0 (3.4)
Second half ‘04		195.4 (1.2)	192.5 (3.2)		190.5 (1.8)	187.0 (2.7)	
ANNUAL AVE.		194.7 (1.2)	191.1 (2.6)	188.9 (2.7)	189.6 (1.6)	185.9 (2.3)	184.5 (2.6)
2005	January			190.7 (3.0%)			186.3 (3.0%)
	February	197.6 (2.1)		191.8 (3.0)	192.4 (2.4)		187.3 (3.0)
	March			193.3 (3.1)			188.6 (3.1)
	April	201.3 (3.6)		194.6 (3.5)	196.2 (3.8)		190.2 (3.7)
	May			194.4 (2.8)			190.0 (2.9)
	June	199.8 (2.3)		194.5 (2.5)	194.8 (2.3)		190.1 (2.6)
First half ‘05		199.2 (2.7)	194.5 (2.5)		194.1 (2.9)	189.4 (2.4)	
	July			195.4 (3.2)			191.0 (3.3)
	August	199.9 (2.7)		196.4 (3.6)	195.3 (3.0)		192.1 (3.8)
	September			198.8 (4.7)			195.0 (5.2)
	October	203.3 (3.5)		199.2 (4.3)	198.6 (3.7)		195.2 (4.7)
	November			197.6 (3.5)			193.4 (3.5)
	December	200.9 (3.0)		196.8 (3.4)	196.1 (3.0)		192.5 (3.5)
Second half ‘05		201.3 (3.0)	197.5 (2.6)		196.5 (3.1)	192.2 (2.8)	
ANNUAL AVE.		200.2 (2.8)	196.0 (2.6)	195.3 (3.4)	195.3 (3.0)	190.8 (2.6)	191.0 (3.5)
2006	January			198.3 (4.0%)			194.0 (4.1%)
	February	203.6 (3.0)		198.7 (3.6)	198.0 (2.9)		194.2 (3.7)
	March			199.8 (3.4)			195.3 (3.6)
	April	207.4 (3.0)		201.5 (3.5)	202.5 (3.2)		197.2 (3.7)
	May			202.5 (4.2)			198.2 (4.3)
	June	208.2 (4.2)		202.9 (4.3)	203.8 (4.6)		198.6 (4.5)
First half ‘06		205.8 (3.3)	199.8 (2.7)		200.8 (3.5)	194.7 (2.8)	
	July			203.5 (4.1)			199.2 (4.3)
	August	209.6 (4.9)		203.9 (3.8)	205.1 (5.0)		199.6 (3.9)
	September			202.9 (2.1)			198.4 (1.7)
	October	209.8 (3.2)		201.8 (1.3)	203.9 (2.7)		197.0 (0.9)
	November			201.5 (2.0)			196.8 (1.8)
	December	209.3 (4.2)		201.8 (2.5)	204.3 (4.2)		197.2 (2.4)
Second half ‘06		209.5 (4.1)	202.5 (2.5)		204.4 (4.0)	197.3 (2.7)	
ANNUAL AVE.		207.6 (3.7)	201.1 (2.6)	201.6 (3.2)	202.6 (3.7)	196.0 (2.7)	197.1 (3.2)
2007	January			202.416 (2.1%)			197.559 (1.8%)
	February	211.704 (4.0)		203.499 (2.4)	205.746 (3.9)		198.544 (2.2)
	March			205.352 (2.8)			200.612 (2.7)
	April	215.767 (4.0)		206.686 (2.6)	210.388 (3.9)		202.130 (2.5)
	May			207.949 (2.7)			203.661 (2.8)
	June	215.510 (3.5)		208.352 (2.7)	210.550(3.3)		203.906 (2.7)
First half ‘07		213.810 (3.9)	206.653 (3.4)		208.373 (3.8)	201.217 (2.8)	
	July			208.299 (2.4)			203.700 (2.3)
	August	215.978 (3.0)		207.917 (2.0)	210.220 (2.5)		203.199 (1.8)

		All Urban Consumers (CPI-U)			Urban Wage Earners & Clerical Workers (CPI-W)		
Year	Month	Seattle	Portland	U.S.	Seattle	Portland	U.S.
	September			208.490 (2.8)			203.889 (2.8)
	October	218.427 (4.1)		208.936 (3.5)	213.107 (4.5)		204.338 (3.7)
	November			210.177 (4.3)			205.891 (4.6)
	December	218.966 (4.6)		210.036 (4.1)	214.024 (4.8)		205.777 (4.3)
Second half '07		217.502 (3.8)	210.460 (3.9)	208.976 (3.1)	212.160 (3.8)	204.801 (3.8)	204.466 (3.3)
ANNUAL AVE.		215.656 (3.9)	208.556 (3.7)	207.342 (2.8)	210.266 (3.8)	203.009 (3.6)	202.767 (2.9)
2008	January			211.080 (4.3%)			206.744 (4.6%)
	February	221.728 (4.7)		211.693 (4.0)	216.332 (5.1)		207.254 (4.4)
	March			213.528 (4.0)			209.147 (4.3)
	April	223.196 (3.4)		214.823 (3.9)	218.483 (3.8)		210.698 (4.2)
	May			216.632 (4.2)			212.788 (4.5)
	June	228.068 (5.8)		218.815 (5.0)	223.573 (6.2)		215.223 (5.6)
First half '08		223.569 (4.6)	214.619 (3.9)	214.429 (4.2)	218.664 (4.9)	209.456 (4.1)	210.309 (4.6)
	July			219.964 (5.6)			216.304 (6.2)
	August	227.745 (5.4)		219.086 (5.4)	223.273 (6.2)		215.247 (5.9)
	September			218.783 (4.9)			214.935 (5.4)
	October	225.915 (3.4)		216.573 (3.7)	220.687 (3.6)		212.182 (3.8)
	November			212.425 (1.1)			207.296 (0.7)
	December	222.580 (1.7)		210.228 (0.1)	216.424 (1.1)		204.813 (-0.5)
Second half '08		225.869 (3.8)	216.159 (2.7)	216.177 (3.4)	220.721 (4.0)	210.557 (2.8)	211.796 (3.6)
ANNUAL AVE.		224.719 (4.2)	215.389 (3.3)	215.303 (3.8)	219.692 (4.5)	210.006 (3.4)	211.053 (4.1)
2009	January			211.143 (0.0%)			205.700 (-0.5%)
	February	224.737 (1.4)		212.193 (0.2)	218.752 (1.1)		206.708 (-0.3)
	March			212.709 (-0.4)			207.218 (-0.9)
	April	225.918 (1.2)		213.240 (-0.7)	220.208 (0.8)		207.925 (-1.3)
	May			213.856 (-1.3)			208.774 (-1.9)
	June	227.257 (-0.4)		215.693 (-1.4)	221.993 (-0.7)		210.972 (-2.0)
First half '09		225.580 (0.9)	214.102 (-0.2)	213.139 (-0.6)	219.853 (0.5)	207.898 (-0.7)	207.883 (-1.2)
	July			215.351 (-2.1)			210.526 (-2.7)
	August	227.138 (-0.3)		215.834 (-1.5)	221.873 (-0.6)		211.156 (-1.9)
	September			215.969 (-1.3)			211.322 (-1.7)
	October	226.277 (0.2)		216.177 (-0.2)	221.339 (0.3)		211.549 (-0.3)
	November			216.330 (1.8)			212.003 (2.3)
	December	225.596 (1.4)		215.949 (2.7)	220.905 (2.1)		211.703 (3.4)
Second half '09		226.475 (0.3)	217.191 (0.5)	215.935 (-0.1)	221.463 (0.3)	211.950 (0.7)	211.377 (-0.2)
ANNUAL AVE.		226.028 (0.6)	215.647 (0.1)	214.537 (-0.4)	220.658 (0.4)	209.924 (0.0)	209.630 (-0.7)
2010	January			216.687 (2.6%)			212.568 (3.3%)
	February	226.085 (0.6)		216.741 (2.1)	221.215 (1.1)		212.544 (2.8)
	March			217.631 (2.3)			213.525 (3.0)
	April	226.513 (0.3)		218.009 (2.2)	222.309 (1.0)		213.958 (2.9)
	May			218.178 (2.0)			214.124 (2.6)
	June	226.118 (-0.5)		217.965 (1.1)	221.857 (-0.1)		213.839 (1.4)
First half '10		226.195 (0.3)	217.508 (1.6)	217.535 (2.1)	221.714 (0.8)	213.036 (2.5)	213.426 (2.7)
	July			218.011 (1.2)			213.898 (1.6)
	August	227.645 (0.2)		218.312 (1.1)	223.444 (0.7)		214.205 (1.4)
	September			218.439 (1.1)			214.306 (1.4)
	October	227.251 (0.4)		218.711 (1.2)	223.112 (0.8)		214.623 (1.5)
	November			218.803 (1.1)			214.750 (1.3)
	December	226.862 (0.6)		219.179 (1.5)	222.853 (0.9)		215.262 (1.7)
Second half '10		227.190 (0.3)	219.179 (0.9)	218.576 (1.2)	223.053 (0.7)	214.409 (1.2)	214.507 (1.5)
ANNUAL AVE.		226.693 (0.3)	218.344 (1.3)	218.056 (1.6)	222.384 (0.8)	213.722 (1.8)	213.967 (2.1)
2011	January			220.223 (1.6%)			216.400 (1.8%)
	February	229.482 (1.5)		221.309 (2.1)	225.790 (2.1)		217.535 (2.3)
	March			223.467 (2.7)			220.024 (3.0)
	April	231.314 (2.1)		224.906 (3.2)	228.313 (2.7)		221.743 (3.6)
	May			225.964 (3.6)			222.954 (4.1)
	June	233.250 (3.2)		225.722 (3.6)	230.072 (3.7)		222.522 (4.1)
First half '11		230.815 (2.0)	223.105 (2.6)	223.598 (2.8)	227.455 (2.6)	218.872 (2.7)	220.196 (3.2)
	July			225.922 (3.6)			222.686 (4.1)
	August	233.810 (2.7)		226.545 (3.8)	230.558 (3.2)		223.326 (4.3)

Year	Month	All Urban Consumers (CPI-U) Seattle	Portland	U.S.	Urban Wage Earners & Clerical Workers (CPI-W) Seattle	Portland	U.S.
	September			226.889 (3.9)			223.688 (4.4)
	October	235.916 (3.8)		226.421 (3.5)	232.697 (4.3)		223.043 (3.9)
	November			226.230 (3.4)			222.813 (3.8)
	December	234.812 (3.5)		225.672 (3.0)	231.297 (3.8)		222.166 (3.2)
Second half '11		234.715 (3.3)	226.077 (3.1)	226.280 (3.5)	231.415 (3.7)	221.508 (3.3)	222.954 (3.9)
ANNUAL AVE.		232.765 (2.7)	224.590 (2.9)	224.939 (3.2)	229.435 (3.2)	220.190 (3.0)	221.575 (3.6)
2012	January			226.665 (2.9%)			223.216 (3.1%)
	February	235.744 (2.7)		227.663 (2.9)	232.081 (2.8)		224.317 (3.1)
	March			229.392 (2.7)			226.304 (2.9)
	April	237.931 (2.9)		230.085 (2.3)	234.808 (2.8)		227.012 (2.4)
	May			229.815 (1.7)			226.600 (1.6)
	June	239.540 (2.7)		229.478 (1.7)	236.222 (2.7)		226.036 (1.6)
First half '12		237.344 (2.8)	228.746 (2.5)	228.850 (2.3)	233.959 (2.9)	223.712 (2.2)	225.581 (2.4)
	July			229.104 (1.4)			225.568 (1.3)
	August	240.213 (2.7)		230.379 (1.7)	236.750 (2.7)		227.056 (1.7)
	September			231.407 (2.0)			228.184 (2.0)
	October	241.355 (2.3)		231.317 (2.2)	237.947 (2.3)		227.974 (2.2)
	November			230.221 (1.8)			226.595 (1.7)
	December	237.993 (1.4)		229.601 (1.7)	234.588 (1.4)		225.889 (1.7)
Second half '12		239.981 (2.2)	230.811 (2.1)	230.338 (1.8)	236.564 (2.2)	225.389 (1.8)	226.878 (1.8)
ANNUAL AVE.		238.663 (2.5)	229.779 (2.3)	229.594 (2.1)	235.261 (2.5)	224.551 (2.0)	226.229 (2.1)
2013	January			230.280 (1.6%)			226.520 (1.5%)
	February	239.898 (1.8)		232.166 (2.0)	236.542 (1.9)		228.677 (1.9)
	March			232.773 (1.5)			229.323 (1.3)
	April	240.823 (1.2)		232.531 (1.1)	237.405 (1.1)		228.949 (0.9)
	May			232.945 (1.4)			229.399 (1.2)
	June	242.820 (1.4)		233.504 (1.8)	238.963 (1.2)		230.002 (1.8)

Implicit Price Deflator for Personal Consumption Expenditures

Monthly Index and Cumulative Percentage Change from July 2012 - Base Year 2005

	Jul 12	Aug	Sep	Oct	Nov	Dec	Jan 13	Feb	Mar	Apr
Orig. Index	115.553	115.961	116.331	116.515	116.356	116.358	116.429	116.898	116.764	116.472
Cum. % Change		0.353	0.673	0.833	0.695	0.697	0.758	1.164	1.048	0.795
IPD % Proj.		4.237	4.040	3.330	2.085	1.672	1.516	1.995	1.572	1.060
Prev. 12 Mo. % Change		1.435	1.598	1.758	1.538	1.469	1.277	1.359	1.009	0.741

Source: Survey of Current Business, Table B.1 - The Disposition of Personal Income, and/or BEA news releases.

The top row represents the preliminary and revised implicit price deflator indices for personal consumption expenditures (IPD) published by the Bureau of Economic Analysis (BEA). (Every month from August to May, the BEA goes back and revises the data for the last three to six months.) The second row represents the cumulative percentage change in the preliminary or revised index from July of 2012. The third row represents the projections of the annual IPD since July of 2012 when using the methodology of dividing the cumulative percentage change since July by the number of months since July and then multiplying the dividend by 12 to obtain an annual estimate. The fourth row represents the actual percentage change over the last 12 months.

BEA Revisions and Our Forecast

We want to remind everyone (and there may be some readers who do not know) why we are interested in the percentage change in the implicit price deflator (IPD) for personal consumption expenditures. Passage of Initiative 747 in November 2001 set new limits on property tax increases for local governments.

Taxing districts with a population of less than 10,000 can increase their annual levies by only one percent. Taxing districts with a population of 10,000 or more can increase their levies by the lesser of one percent or the percentage increase in the July implicit price deflator for personal consumption expenditures as published by the Bureau of Economic Analysis in the September issue of the *Survey of Current Business*. (There is an exception if the legislative body makes a finding of “substantial need.”) The bottom line, however, is that a change in the IPD of less than one percent is a “big deal” for taxing districts with a population of 10,000 or more.[3]

Right now, all we have is the data shown above and what we want, by the time we get to July, is for the all numbers to be above one percent. There are three more months to go, but if you look at prior months, you can see the numbers have been jumping all up and down and it appears that ending up with a percentage change in the IPD of less than one percent is a possibility.

However, the Bureau of Economic Analysis (BEA) is doing a “comprehensive” revision to the national income and product accounts this year. In most years they do “annual revisions” which only affect the past three years. But, every once in a while, they do a “comprehensive” revision and this is one of those years. It will revise some national income and product account data back to 1929. The primary change is to count spending on research and development as investment, i.e. to capitalize it. This will add more than two percent to the measured size of the economy. Capitalizing motion picture originals, long-lived television programs, books and sound recordings will add another percent. ***With this change in methodology the measured size of our economy is going to be three percent bigger*** when the July statistics are released.[4] Pretty amazing.

So, what does this have to do with the forecast of the IPD? Well, anything that affects the national income and product account data will affect the IPD in some way. The Financial Times stated: “Steve Landefeld, BEA director, said it is hard to predict the overall outcome given the mixture of new methodology and data updates. ‘What’s going to happen when you mix it with the new source data from the economic census…I don’t know,’ he said.”[5]

So, we will have to wait and see. The 12-month change in the July index – the one that sets the “inflation rate” for property tax increases – may be quite a bit different from the possible rates we are looking at right now in the above table.

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[3]For a more complete discussion, see *A Revenue Guide for Washington Cities and Towns*, Municipal Research and Services Center, Report No. 46 Revised, June 2009, pages 2-4. http://www.mrsc.org/publications/rgcity2009.pdf The explanation in the text applies to all taxing districts, not just cities and towns.

[4]For information on this revision, see “Preview of the 2013 Comprehensive Revision of the National Income and Product Accounts: Changes in Definitions and Presentations,” *Survey of Current Business*, March 2013. http://www.bea.gov/scb/toc/0313cont.htm

[5]“Data shift to lift US economy 3%,” by Robin Harding, *Financial Times*, April 21, 2013.

We will publish the annual inflation factor in the Focus section of the MRSC website (www.mrsc.org) and the *MRSC Insight* blog (http://insight.mrsc.org) as soon the September issue of the Survey of Current Business is released – sometime during the third week of the month.

Revenue Forecasts

Population Forecast

The official April 1, 2013 **city** population to be used for distributions in 2014 is 4,432,699. This is 1.1 percent more than the population estimate for April 1, 2012. Almost all the increase came from secular growth with only 0.2 percent from annexations. Each year we adjust the April 1 numbers upward for annexations that we know were completed after the April 1 estimates were made or that are in the pipeline to be counted as population for the following year's (here, that would be 2014) distributions. Cities that annex qualify for state-shared revenue distributions on their new population base, starting the first day of the quarter after the effective date of the annexation.

The voters in the remaining part of North Highline voted last November (2012) against annexing to Burien. If that election had been successful, another 17,400 people would have been added to the 2013 city population. Bothell plans to annex areas in King County with a total population of approximately 6,500, effective February 28, 2014. That will produce an adjusted population figure of 4,437,574 for to be used for 2014 distributions if the annexations take place as planned.

The official April 1, 2013 **county** population is 2,449,701. This is a increase of one percent from 2012. We have used this number, unadjusted, in making the county forecasts for liquor board profits and the liquor excise tax.

Motor Vehicle Fuel Taxes

Editor's Note: Brian Calkins, the Transportation Economist for the Budget and Financial Analysis Division of the Department of Transportation, provided the forecasts for the tables.

Motor vehicle fuel tax revenue is expected to increase by 1.2 percent in 2013, 1.0 percent in 2014, and stay unchanged in 2015. Gasoline and diesel fuel prices and Washington personal income are the primary variables affecting fuel consumption. Fuel prices are forecast to decrease over the next two years and personal incomes are anticipated to increase, both contributing to the small increase in gallons sold and revenue. **A reminder:** fuel taxes in Washington are assessed as cents per gallon, so fuel tax revenue depends on the number of gallons sold, not the dollar value of the sales.

The **county** distribution formula includes annual road costs and "need" in addition to population. The county estimates, based on these factors, are done by the County Road Administration Board (CRAB). The county allocation percentages for 2014 will be released after the board meets on August 1, 2013. We will provide this information on our Focus page at www.mrsc.org when it is available. Counties will also be notified directly by CRAB.

The **city** forecasts for total dollars and per capita amounts are in Tables 3 and 4.

Liquor Revenues

Three pieces of legislation passed in the past two years are having an impact on liquor revenues received by cities and counties.

- Initiative 1183 passed in November 2011. It privatized the distribution and retail sale of liquor, effective June 1, 2012. The markups on liquor have been replaced as a state revenue source by license fees that are paid to the state by retailers and distributors. The direct impact of this initiative is on liquor profits.

- The 2012 legislature passed ESHB 2823, ch. 5, Laws of 2012, 2nd sp. sess. Section 4 of this bill diverted all city and county liquor excise tax revenue to the state general fund for FY 2013. It also provided for a permanent diversion of $2.5 million per quarter ($10 million per year) of city and county money from the liquor excise tax fund to the state general fund, effective FY 2014. This is codified in RCW 82.08.170(3). Since 80 percent of the liquor excise tax is distributed to cities and 20 percent to counties,[1] $2.0 million of this quarterly transfer comes out of city money and $0.5 million from county money.

- The 2013-2015 budget (3ESSB 5034), passed by the 2013 legislature, contains a provision (section 1003) that increases the share of liquor taxes, collected and remitted under RCW 82.08.150(1) and (2), that is deposited into the state general fund. The state share will go from 65 percent to 82.5 percent for the 2013-2015 biennium. This means that the share going to the liquor excise tax fund for distribution to cities and counties will fall from 35 percent to 17.5 percent – a reduction of half, or 50 percent. The budget also, in section 801, appropriates $24,744,000 for the liquor excise tax fund. As we will discuss below, these two provisions in the budget are in conflict.

Liquor Excise Taxes

Editor's Note: The liquor excise tax forecasts are the work of Lance Carey of the Washington State Economic and Revenue Forecast Council. Eric Swenson of the same office provided additional information.

Now, how do these pieces of legislation, in particular the $2.5 million per quarter transfer from the liquor excise tax fund and the 50 percent reduction in the share of the liquor excise tax fund going to cities and counties, work together?

As we go to press, **there are two different views of how this works**.

1. One view (which we will call the "Lower Revenue View") starts with the language in section 1003 of the budget. For the liquor excise tax collections made during the 2013-2015 biennium, it says 87.5 percent is to go to the state general fund, leaving only 17.5 percent for the liquor excise tax fund to be distributed to cities and counties. This is a drop of 50 percent for cities and counties because their share has been 35 percent. Then, under the 2012 legislation we

[1]A small portion of these funds go to border cities and counties. We have left out that amount to simplify the computations. They will still get their money.

noted above, $2.5 million a quarter ($10 million a year) will be transferred from the liquor excise tax fund to the state general fund, beginning FY 2014.

2. Another view is that it was the legislature's intent that the $2.5 million per quarter ($10 million per year) be transferred to the state general fund **first**. **Then** 50 percent of the remaining funds would go to the state general fund. If one does the calculations in this order, the current estimate from the Washington State Economic and Revenue Forecast Council of the amount of liquor excise tax that cities and counties would receive in the 2013-2015 biennium is approximately $24,768,000. In section 801 of the 2013-2015 budget, the legislature voted for an appropriation of $24,744,000 (for the biennium) from the Liquor Excise Tax Account to the cities and counties. Very close. This is considerably more money for cities and counties than they would be getting under the first view. Let's call this the "Higher Revenue View."

The Association of Washington Cities and the Washington State Association of Counties are working with legislative and agency staff to resolve this difference and when there is a decision, it will be announced in their newsletters and our *In Focus* webpage (www.mrsc.org) and *MRSC Insight* blog (http://insight.mrsc.org/). In the meantime, we will go through the paces of explaining our forecasts for **calendar years** 2013, 2014, and 2015 **for both views**. Note that the numbers we come up with cannot be directly compared with numbers the state produces because we are using *calendar* years rather than fiscal years. In addition, distributions to cities and counties occur with a lag of one quarter after the collections are made by the state. So this difference in timing makes state estimates and our estimates hard to compare.

How Estimates Were Made for the "Lower Revenue View." The revised estimates for the liquor excise tax for **2013** reflect the interplay of section 1003 of the 2013-2015 state budget and the 2012 legislation discussed above. There were no distributions to cities and counties in January 2013, April 2013, and July 2013. There will be distributions of liquor excise taxes in October. But, when you look at Tables 2A and 2B, you will immediately note how small the distributions are! The October 2013 distributions contain money from tax collections made in July, August, and September. Only 17.5 percent (not 35 percent) of the collections are going to the liquor excise tax fund for distribution to cities and counties. That amount is estimated to be $4,075,000. Then, the $2.5 million transfer will be made per RCW 82.08.170(3). The resulting forecast is $1,575,000 and this gets split between cities and counties 80 percent-20 percent, or $1,260,000 and $315,000.

For **2014**, we go through the same calculations, except they affect the whole year. Only 17.5 percent of the liquor excise tax collections gets distributed to the liquor excise tax fund. **Then** $10 million ($2.5 million a quarter) gets transferred to the state general fund. Cities and counties share a distribution of $6,619,000 – $5,295,000 to cities and $1,324,000 to counties. In **2015**, the distributions in the first three quarters will be made in the same way. However, the provision that gives the state general fund a 87.5 percent share ends on June 30, 2015. That means the fourth distribution (October) to cities and counties will come from a pot of money that is a 35 percent share once again. The $2.5 million quarterly transfer to the state general fund still lives on, however, until the legislature decides to eliminate it.

In addition to Tables 2A and 2B below, these estimates are shown in Tables 3, 4, 5, and 6 on pages 28 and 29. In those tables, we chose to display the estimates from the "Lower Revenue View" because, if changes have to be made, we believe most people would prefer the estimates to go up rather than down.

City Liquor Excise Taxes			
	2013	**2014**	**2015**
Total – "Lower Revenue"	$1,260,000	$5,295,000	$9,406,000
Per Capita – "Lower Revenue"	$0.29	$1.19	$2.09
Total – "Higher Revenue"	$2,260,000	$9,295,000	$12,406,000
Per Capita – "Higher Revenue"	$0.52	$2.09	$2.76

Table 2A

County Liquor Excise Taxes			
	2013	**2014**	**2015**
Total – "Lower Revenue"	$315,000	$1,324,000	$2,351,000
Per Capita – "Lower Revenue"	$0.13	$0.54	$0.96
Total – "Higher Revenue"	$565,000	$2,324,000	$3,101,000
Per Capita – "Higher Revenue"	$0.23	$0.95	$1.27

Table 2B

How Estimates Were Made for the "Higher Revenue View." The revised estimates for **2013** for the liquor excise tax are shown in Tables 2A and 2B below. There were no distributions to cities and counties in January 2013, April 2013, and July 2013. There will be distributions of liquor excise taxes in October. The October 2013 distributions contain money from tax collections made in July, August, and September. Following the view that the legislature intended that the $2.5 million transfer from the liquor excise tax fund be made first, we have subtracted $2.5 million from the estimate of the cities' and counties' 35 percent share of $8,150,000, resulting in $5,650,000. Then, after transferring 50 percent of this amount to the state general fund, the amount for cities and counties is estimated to be $2,825,000 – $2,260,000 for cities and $565,000 for counties. For **2014**, we go through the same calculations, except they affect the whole year. Ten million dollars ($2.5 million a quarter) get transferred to the state general fund. Then, once again, 50 percent of the remaining amount is also transferred to the state general fund. This leaves $11,619,000 – $9,295,000 for cities and $2,324,000 for counties. You can now see why this methodology is called the "Higher Revenue View."

In **2015**, the distributions in the first three quarters will be made in the same way as they were for the last quarter of 2013 and calendar year 2014. However, the provision that gives the state general fund a 50 percent share ends on June 30, 2015. So the fourth distribution (October) to cities and counties will be twice as large. The $2.5 million quarterly transfer to the state general fund still lives on, however, until the legislature decides to eliminate it.

These estimates are shown in Tables 2A and 2B above. If it turns out that the "Higher Revenue View" is the one that prevails, substitute these numbers in Tables 3, 4, 5, and 6 on pages 28 and

29. In those tables, we chose to display the estimates from the "Lower Revenue View" because, if changes have to be made, we believe most people would prefer that the estimates go up rather than down.

Liquor Board Profits

Under Initiative 1183, the state is now collecting revenue in the form of license fees from distributors and retailers. A portion of these "liquor profits" (the Liquor Control Board (LCB) continues to call these funds "liquor profits") goes to cities, counties, and border cities and counties. Section 302 of Initiative 1183, now codified as RCW 66.24.065, reads:

> The distribution of spirits license fees under RCW 66.24.630 and 66.24.055 through the liquor revolving fund to border areas, counties, cities, towns, and the municipal research center must be made in a manner that provides that each category of recipients receive, in the aggregate, **no less than it received from the liquor revolving fund during comparable periods prior to December 8, 2011**. An additional distribution of ten million dollars per year from the spirits license fees must be provided to border areas, counties, cities, and towns through the liquor revolving fund for the purpose of enhancing public safety programs.
>
> [Emphasis added.]

The "comparable periods prior to December 8, 2011" were determined by the Office of Financial Management to be December 2010, March 2011, July 2011, and September 2011. And the liquor profit revenue for cities, counties, and border areas for those four quarters was $39,438,000. To this amount, the Liquor Control Board adds the $10 million to enhance public safety programs for a total liquor profits distribution of $49,438,000 each year. Three-tenths of one percent (0.3 percent), which equals $148,314, is distributed to border cities and counties. Then, the remaining $49,289,686 is distributed as follows:

- Eighty percent of the $49,289,686 goes to cities. This equals $39,431,748 annually, which is $9,857,937 per quarter.
- Twenty percent of the $49,289,686 goes to counties. This equals $9,857,936 annually, which is $2,464,484 per quarter.

Each city and county has to split its distributions so that it can account separately for the portion that can be spent for any general fund purpose and the portion that must be spent to enhance public safety programs. To make this split, multiply your distribution by 0.2023[2] or 20.23 percent to get the amount that must be used for public safety purposes. (Maybe the State Auditor's Office will decide that you can round off to the nearest percent and use a figure of 20 percent, which would be easier to remember.)

[2]Here is the math. Three-tenths of one percent (0.3 percent) of the annual $10 million goes to border areas. That leaves .997 x $10 million = $9,970,000 for cities and counties. Cities get an 80 percent share (.8 x $9,970,000 = $7,976,000) and counties get a 20 percent share, $1,994,000. Take the city public safety amount and divide it by the total amount cities will get annually. $7,976,000/$39,431,748 = 0.2023. Multiply by 100 and you get 20.23 percent. The county calculation yields the same percent, of course: $1,994,000/$9,857,936 = 0.2023.

The amounts shown in Tables 3 and 5 for **2013 and 2014** are $39,431,748 for cities and $9,857,936 for counties. And, these same mounts will be the distributions each year in the future unless the legislature increases them. The initiative did not include any factor for inflation or any other kind of increase for the distributions.

“Oh, what’s the question from the back of the room? Do you have to still have to devote at least two percent of your liquor profits and liquor excise tax distributions to an approved alcohol or drug addiction program under RCW 70.96A.087? Yes, if you want to be eligible to receive these distributions.”

City-County Assistance

Background

ESSB 6050, ch. 450, Laws of 2005, established the city-county assistance account in RCW 43.08.290. This account provides funding for assistance for certain cities and counties according to the formulas set out below. These jurisdictions lost funding when the motor vehicle excise tax (MVET) was repealed in 2000. This account receives 1.6 percent of the state real estate excise tax. (Eric Swanson of the Washington State Economic and Revenue Forecast Council makes the forecasts of the real estate excise tax revenues.)

Counties. Counties with an unincorporated population of more than 100,000, qualify to receive the amount necessary to increase the sum of the revenues received under RCW 82.14.030(1) (the first half-cent of the sales and use tax) and streamlined sales tax mitigation funds received to the greater of: 1) $250,000 (to be increased each year by the increase in the July implicit price deflator for personal consumption expenditures, which produces an amount of $285,710 in 2013); or 2) an amount equal to 65 percent of the state-wide per capita average collected from the first half-cent of the sales and use tax with respect to taxable activity in the unincorporated areas of all counties in the previous fiscal year.

Counties with an unincorporated population of less than 100,000 qualify to receive the amount necessary to increase the sum of the revenues received under RCW 82.14.030(1) (the first half-cent of the sales and use tax) and streamlined sales tax mitigation funds received to the greater of: 1) $250,000 (to be increased each year by the increase in the July implicit price deflator for personal consumption expenditures, which produces an amount of $285,710 in 2013); or 2) an amount equal to 70 percent of the state-wide per capita average received from the first half-cent of the sales and use tax with respect to taxable activity in the unincorporated areas of all counties in the previous fiscal year.

In counties with an unincorporated population of 15,000 or less, the county will be certified for the greater of: 1) the amount under the terms in the paragraph above for counties with a population under 100,000; or 2) the amount the county received in “backfill” for FY 2005 under section 716, ch. 276, Laws of 2004 (amended state budget).

If there are not enough revenues to fund the distributions above, then they will each be reduced proportionately. If there are more revenues than necessary to fund the above distributions, they shall be distributed proportionately on the basis of the unincorporated population among those counties that have qualified for city-county assistance funding and impose the full second half cent of the sales and use tax under RCW 82.14.030(2).

Cities. The formula used to allocate city funding is based on a sales tax and property tax equalization formula, and the 2005 MVET backfill levels. The sales tax and property tax equalization components of the formula are similar to the former sales tax equalization program that was funded with MVET.

Cities with a population of 5,000 or less qualify to receive distributions equal to the greater of: 1) 55 percent sales tax equalization on the sum of the first half-cent of the sales and use tax received under RCW 82.14.030(1) and streamlined sales tax mitigation funds for the previous fiscal year; 2) 55 percent property tax equalization based on per capita assessed values per $1,000 assessed value; or 3) their 2005 MVET backfill allocation. However, cities with twice the statewide per capita assessed value are not eligible for funding.

Cities with populations over 5,000 qualify to receive distributions equal to the greater of: 1) 50 percent sales tax equalization on the sum of the first half-cent of the sales and use tax received under RCW 82.14.030(1) and streamlined sales tax mitigation funds for the previous fiscal year; or 2) 55 percent property tax equalization based on per capita assessed values per $1,000 assessed value. These cities do not qualify for funding if their assessed value per capita is above the statewide average (compared to twice the statewide average for smaller cities).

Distributions for all cities are capped at $100,000, to be increased each year by the increase in the July implicit price deflator for personal consumption expenditures. (The 2013 cap is $118,579.) And, new cities that incorporate after August 1, 2005 are not eligible for funding.

If there are not enough revenues to fund the distributions above, then they will each be reduced proportionately. If there are more revenues than necessary to fund the above distributions, they are to be distributed proportionately on the basis of population among those cities that have qualified for city-county assistance and impose the full second half cent of the sales and use tax under RCW 82.14.030(2).

Certification and distribution dates. Using the factors for cities and counties described above, the Department of Revenue (DOR) must certify the amounts to be distributed each year by October 1, with preliminary estimates available by September 1.

Funds are distributed quarterly on January 1, April 1, July 1, and October 1. In order for the funds to be distributed on those dates, the transfers must be made in the previous month. The cash payments, therefore, come in December of the year in which the certification is made, then in March, June, and September of the coming year. This means that, for budgeting purposes, cities and counties are dealing with two different certification years. Here is how it works.

When you pass your budget for 2014 this coming November or December, you will know the amount for which you are certified for 2014 (see the discussion below on how to make your forecast), but the first payment from that certification will arrive this December and is part of the current year's (2013) budget receipts. The amount you budget for 2014 will depend on your estimates of how much you will receive in March, June, and September 2014 based on your October 1, 2013 certification, plus your "guesstimate" of what you will receive in December 2014, which will depend on the certification that will be made next year on October 1, 2014. The following table shows the various payments and their timing.

City-County Assistance Distributions			
	Statutory Date for Distribution	Actual Payment Date	Certification Date
2013 Budget			
Payment 1	April 1, 2013	Late March 2013	October 1, 2012
Payment 2	July 1, 2013	Late June 2013	October 1, 2012
Payment 3	October 1, 2013	Late September 2013	October 1, 2012
Payment 4	January 1, 2014	Late December 2013	October 1, 2013
2014 Budget			
Payment 1	April 1, 2014	Late March 2014	October 1, 2013
Payment 2	July 1, 2014	Late June 2014	October 1, 2013
Payment 3	October 1, 2014	Late September 2014	October 1, 2013
Payment 4	January 1, 2015	Late December 2014	October 1, 2014

Table 2C

Forecasts

After two good years for city-county assistance receipts in 2006 and 2007, revenues decreased in 2008 as the housing market took a beating. State real estate excise taxes, the funding source, fell and cities and counties each received $5.06 million compared to $7.6 million the year before – a decrease of a third. This was enough to fully fund the counties at the amounts for which they were certified, but cities received only 65 percent of their certification amounts.

In 2009, receipts of real estate excise tax receipts fell to $3.04 million, another big decrease – this time, 40 percent. Luckily, section 805 of the 2009-2011 operating budget contained a transfer from the Public Works Assistance Account of $2.5 million to both cities and counties on July 1 of 2009 and 2010, to be paid out in the September/October distribution. With the total distributions in 2009 to both cities and counties of $5.54 million, counties were fully funded while cities received 67 percent of their 2009 certified amounts.

For 2010, the operating transfers of $2.5 million to both cities and counties from the Public Works Assistance Account bailed cities and counties out again. Receipts from the real estate excise tax were relatively steady at $3.15 million for both cities and counties and, adding in the $2.5 million transfers, they each received $5.65 million. Counties were more than fully funded because their certification amount was $3.90 million. Cities received 66.3 percent of the amount for which they were certified.

Then, along came 2011 – no more $2.5 million transfers to enhance the city and county pots of money. Cities received approximately 47 percent of their certification amounts for 2011 and counties received 74 percent. This increased to 55 percent for cities and 85 percent for counties in 2012.

2013 Update. The total certification amount for cities for **2013** is $ 6.53 million. For counties, the amount is $4.87 million. Of this amount, both cities and counties have already received $2.16 million in the first two payments (made at the end of March and June) for 2013. According to the June 2013 forecast of real estate excise tax receipts, cities and counties are each currently expected to receive $1.21 million from the real estate excise tax in the October distribution, which is paid out at the end of September. That would bring the total so far for 2013 to $3.37 million. There will be one more payment – the January 2014 distribution, which cities and counties will receive at the end of this coming December.

To update your forecast for 2013, go to the webpage http://dor.wa.gov/content/doingbusiness/6050distributions.aspx and click on "2013 City and County Distributions." These spreadsheets show the amounts for which each city and county (note the "county" tab at the bottom) is certified in 2013 (look at the column in pale green, titled "ESSB 6050 Amount"). They also show how much each city and county has received so far in the first two distributions for the 2013 budget (the "April 2013 Distribution" received in March and the "July 2013 Distribution" received in June), and the amount they are expected to get in the "October 2013 distribution" (to be received at the end of September). Pay no attention to the last column titled "Total." For revising your 2013 revenue estimates, this is a meaningless number, since the cash from the "January 2013 Distribution" has already been counted as part of your actual revenues for 2012.

The last cash payment for calendar year 2013 will come in December and it will be the "January 2014 Distribution" from the new certification for 2014 that will be made no later than October 1, 2013, with preliminary estimates available sometime in September.[3] It will be posted at this same website, http://dor.wa.gov/content/doingbusiness/6050distributions.aspx, and will be titled "2014 Recertification and Quarterly Distribution Estimates." (Yes, this information on "timing" is confusing. Maybe it is time to take another look at Table 2C above, which shows the timing of the payments and the statutory distributions.)

Right now, the folks at the Economic and Revenue Forecast Council are estimating that the January 2014 distribution (December 2013 payment) will be $1.06 million for cities and the same amount for counties. That would make the total for the four payments for the 2013 budget year equal to $4.43 million. Therefore, we are forecasting that cities will get approximately 68 percent ($4.43 million/$6.53 million) of their certification amounts for 2013 and counties will receive approximately 91 percent ($4.43 million/4.87 million). If you don't want to wait for the publication

[3]RCW 43.08.290(6)(d) states, in part:

> By September 1, 2010, and September 1st of every year thereafter, the department of revenue must make available a preliminary certification of the amounts to be distributed under this section…

What the drafter of the legislation did not realize is that the July implicit price deflator for personal consumption expenditures is not published in the Survey of Current Business from the Bureau of Economic Analysis until the September issue, which is posted on their Web site sometime during the third week of September. Therefore the "preliminary" certification is not available on September 1.

of the "2014 Recertification and Quarterly Distribution Estimates" to complete your update, using these percentages will give you a pretty good estimate.

2014. When the preliminary certification for **2014** is posted on this website, http://dor.wa.gov/content/doingbusiness/6050distributions.aspx, sometime in the latter part of September, cities and counties both need to check it to see what amounts they are certified for (column titled "ESSB 6050 Amount"). As mentioned above, this spreadsheet should be titled "2014 Recertification and Quarterly Distribution Estimates." Neither cities nor counties will get the total amount for which they are certified. Currently the estimate of the real estate excise tax revenue to be distributed next year to both cities and counties is $ 4.43 million. You can calculate what your entity's percentage share will be by taking the amount in the "ESSB 6050 Amount" column for your entity and dividing it by the city or county total at the bottom of the column. Multiply that "share" by $4.43 million to get your estimated dollar amount for 2014. This methodology assumes that your share of the last payment in 2014 (which will come from the October 1, 2014 certification for 2015) will be the same percentage amount as the first three payments and this is a reasonably good assumption for most entities.

If you cannot wait until the release of the preliminary certification in September[4] to make your budget estimate for 2014, then take your entity's percentage share of the **2013** certification and multiply it by the estimated pot of city or county revenue for 2014, $ 4.43 million. You must realize that this method might not produce such a great estimate for some of you. For example, let's say you are a city with a population of 5,000 or less and your per capita sales tax on the first half cent in the qualifying period was $51.00, just slightly less than $51.97, the 55 percent equalization amount. You were certified for a distribution this year, 2013, but if your per capita sales tax increases by much, you might not qualify for assistance in 2014.

Criminal Justice Revenues

With the repeal of the motor vehicle excise tax, the only money that **cities** receive by statute comes from language that says that beginning July 1, 1999, a transfer would be made from the general fund to both city accounts under RCW 82.14.320 and RCW 82.14.330. Each transfer was appropriated originally at $4.6 million, to be increased each July by "the fiscal growth factor" in RCW 43.135.025, which is the average growth in state personal income for the prior ten fiscal years. By 2012, the distribution had grown to $6.8 million.

Seventy percent of the revenue distributed under RCW 82.14.330 is handed out on a purely per capita basis. RCW 82.14.330(1)(b) distributes 16 percent of the pot on a per capita basis, with each city receiving a minimum of $1,000, no matter how small their population. RCW 82.14.330(2) was amended in 2003 to delete the language that allocated certain percentages to innovative law enforcement programs, domestic violence prevention programs, and child abuse prevention programs, with the requirement that the cities send in funding requests for each program to CTED.[5] The funds for these three areas, totaling 54 percent of the pot, are now distributed by the Office of the State Treasurer on a strictly per capita basis. There is a requirement that these funds

[4] *Ibid.*

[5] CTED stands for Community, Trade and Economic Development and it is the department that preceded the Department of Commerce.

be spent on some combination of innovative law enforcement programs, domestic violence prevention programs, and child abuse prevention programs, but no requirement of how much must be spent in each area. All the money can be spent in one area if a city wishes. In Tables 3 and 4, we identity the 16 percent distribution as "Criminal Justice – Population," which is what the treasurer's office calls it. The 54 percent distribution is labeled "Criminal Justice Special Programs."

Ten percent of the revenues go to cities that contract for law enforcement services.

The remaining funds under RCW 82.14.330 and all the revenues under RCW 82.14.320 are handed out partially based on crime rates and we cannot forecast them. The cities that may qualify for these funds know who they are and are aware of the problems they have in estimating these revenues.

In spite of the passage of Initiative 695, **counties** are continuing to receive some state-shared criminal justice funding from the state general fund under the provisions of RCW 82.14.310. The initial appropriation, made for the state fiscal year 2000, was $23.2 million and grew to $34.4 million in 2012. It is increased every July by "the fiscal growth factor, which is the average growth in state personal income for the prior ten fiscal years. The county funding formula includes population, the crime rate of the county, and the annual number of criminal cases filed in superior court. Because revenues are not handed out on a strictly per capita basis, MRSC can provide no forecasts.

Fire Insurance Premium Tax

The state collects a two percent tax on the premiums of all insurance policies written. Twenty-five percent of the tax collected on fire policies and the **fire component** of homeowner's and commercial multi-peril policies, are distributed to cities and fire districts that have firemen's pension funds. Premiums attributed to losses from such things as burglaries, tornadoes, floods, etc., are not shared with cities. For the homeowner's and commercial multi-peril policies, actual data is collected on the loss experience due to fire as a percent of total losses. These percentages are then applied to the total premium taxes collected from these policies to get the taxes attributed to the fire component.

The "ratio value" for 2013 (the total premium distribution divided by the number of paid firefighters) is $934 – over eight percent higher than the $863 we forecast. About 40 percent of the difference is due to higher than forecast premium receipts for commercial multi-peril policies. The remainder reflects the fact that there were fewer firefighters in the denominator of the ratio that we forecast. One former recipient of fire insurance premium tax funds no longer qualifies for a distribution. The amount received by each city or fire district is shown in Table 7.

For 2014 we are assuming cities and fire districts will maintain their firefighting staffing at the current levels. We also assume that premiums for homeowners and fire policies will increase by two percent and that the percent of losses due to fire will follow their historical norms. These assumptions produce a ratio value of $953.

We want to remind our readers, once again, that these forecasts are completely dependent on fire loss experience and insurance premiums and we really have no way to forecast either, although we do know that the latter are currently increasing.

Summary of Local Share of State-Shared Revenues Total Dollar Amounts – 2011 to 2014 *(All Cities and Towns)*				
	2011	**2012**	**2013 Revised**	**2014 Estimate**
Gas Tax	$89,988,405	$88,751,595	$89,873,000	$90,526,000
Profits of Liquor Board	29,949,589	43,382,704	39,431,748	39,431,748
Liquor Tax	21,021,505	16,011,228	**1,260,000***	**5,295,000***
Criminal Justice - Special Programs	3,590,383	3,685,237	3,793,000	3,839,000
Criminal Justice – Population-based	1,063,817	1,091,922	1,124,000	1,138,000
Total	$145,613,699	$152,922,686	$135,481,748	$140,229,748

Table 3

*These are “Lower Revenue View” Estimates – see pages 18-19.

Per Capita Amounts – 2008 to 2014 *(All Cities and Towns)*							
	2008	**2009**	**2010**	**2011**	**2012**	**2013 Rev.**	**2014 Est.**
Gas Tax	$22.82	$21.72	$21.49	$20.82	$20.38	$20.50	$20.40
Profits of Liquor Board	6.73	6.87	7.93	6.93	9.96	8.99	8.89
Liquor Tax	4.80	4.88	4.91	4.86	3.68	**0.29***	**1.19***
Criminal Justice - Special Programs	0.79	0.82	0.84	0.83	0.85	0.87	0.87
Criminal Justice – Population-based	0.23	0.24	0.25	0.25	0.25	0.26	0.26
Total	$35.37	$34.53	$35.42	$33.69	$35.12	$30.91	$31.61

Table 4

*These are “Lower Revenue View” Estimates – see pages 18-19.

Summary of Local Share of State-Shared Revenues Total Dollar Amounts – 2010 to 2014 *(All Counties)*					
	2010	**2011**	**2012**	**2013 Revised**	**2014 Estimate**
Profits of Liquor Board	$8,882,058	$8,107,035	$11,197,571	$9,857,936	$9,857,936
Liquor Excise Tax	4,686,178	4,750,626	3,732,557	**315,000***	**1,324,000***
Total	$13,568,236	$12,857,661	$14,930,128	$10,172,936	$11,181,936

Table 5

*These are “Lower Revenue View” Estimates – see pages 18-19.

Per Capita Amounts – 2007 to 2014 *(All Counties)*								
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013 Rev.**	**2014 Est.**
Profits of Liquor Board	$3.07	$2.90	$2.96	$3.50	$3.30	$4.59	$4.04	$4.02
Liquor Excise Tax	1.61	1.74	1.77	1.85	1.94	1.53	**0.13***	**0.54***
Total	$4.68	$4.64	$4.73	$5.35	$5.24	$6.12	$4.17	$4.56

Table 6

*These are “Lower Revenue View” Estimates – see pages 18-19.

Distribution of Fire Insurance Premium Tax – RCW 41.16.050 *May 2013*			
City/District	**Ratio Value**	**Number of Paid Firefighters as of January 1, 2012**	**Amount[1]**
Aberdeen	$933.80	35	32,683.32
Anacortes		20	18,676.18
Auburn		75	70,035.69
Bellevue		210	196,099.93
Bellingham		139	129,799.47
Bothell		55	51,359.50
Bremerton		54	50,425.70
Camas		41	38,286.18
Centralia		21	19,609.99
Chehalis		12	11,205.71
Edmonds		53	49,491.89
Ellensburg		20	18,676.18
Everett		167	155,946.13
Hoquiam		23	21,477.61
Kelso		12	11,205.71
Kennewick		76	70,969.50
Kent		166	155,012.32
Kirkland		98	91,513.30
Longview		47	43,889.03
Lynnwood		55	51,359.50
Mercer Island		30	28,014.28
Moses Lake		28	26,146.66
Mount Vernon		35	32,683.32
Olympia		88	82,175.21
Pasco		51	47,624.27
Port Angeles		22	20,543.80
Pullman		31	28,948.08
Puyallup		57	53,227.12

Distribution of Fire Insurance Premium Tax – RCW 41.16.050 *May 2013*			
City/District	**Ratio Value**	**Number of Paid Firefighters as of January 1, 2012**	**Amount[1]**
Raymond		11	10,271.90
Redmond		148	138,203.76
Renton		138	128,865.67
Richland		55	51,359.50
Seattle		976	911,397.75
Shelton		6	5,602.86
Spokane		282	263,334.19
Sumner		24	22,411.42
Sunnyside		15	14,007.14
Tacoma		355	331,502.25
Toppenish		7	6,536.66
Tukwila		61	56,962.36
Vancouver		184	171,820.89
Walla Walla		46	42,955.22
Wenatchee		28	26,146.66
Yakima		78	72,837.12
King County #2		44	41,087.60
Spokane County #1		157	146,608.04
Totals		4,336	$4,048,996.57

[1]The amounts shown in the fourth column are the actual distributions by the state. However, if one multiplies the ratio value shown by the number of firefighters in each row, the results are slightly different from the actual amount shown. We have displayed the ratio value as rounded to two decimal places; the actual ratio value used by the state had nine decimal places.

Table 7

What's Ahead for Cities and Counties in 2015 (and Beyond)?

Each year, we report on the possibilities of incorporations and annexations that might result in significant changes in state-shared revenues for the year after next.

We do not see much on the horizon for 2015. Cities have until January 1, 2015 to annex and get the state sales tax credit under RCW 82.14.415. However, we don't see cities rushing to annex before the deadline. Perhaps that is because there have been discussions in the legislature during the last couple sessions about reducing the annexation tax credit for both existing and future annexations. An exception may be Issaquah, which currently is considering annexing Klahanie (10,873). It will be interesting to see if it chooses to do so before the sales tax credit expires.

Below you will find tables that show the forecasts of 2015 per capita revenues.

City Per Capita State-Shared Revenue Estimates – 2015	
Gas tax	$20.14
Liquor board profits	8.76
Liquor excise tax	3.09
Criminal Justice (special programs)	0.86
Criminal Justice (population-based)	0.26
Total	$32.11

County Per Capita State-Shared Revenue Estimates – 2015	
Liquor board profits	$4.02
Liquor excise tax	.96
Total	$4.98

Editor's Notes: 1) "Why," someone might ask, "are you including an article on biennial budgeting in Budget Suggestions for ***2014*** *when 2014 is an even-numbered year? I thought cities could only begin a biennial budget in odd-numbered years." That is true, but an ordinance to start a biennial budget in 2015 must be passed no later than* ***June 30, 2014****. And, Budget Suggestions for 2015 will not be published until* ***July 2014****. In addition, we did a survey of cities and counties that currently do biennial budgets and one common "tip" was to "start planning early." So, this article is just to remind you that if you are thinking of doing a biennial budget for the 2015-2016 biennium, planning should probably begin in January 2014. We plan on having a webinar on biennial budgeting in January, so that will serve as a reminder.*

2) And, on the topic of the survey. I'll be including comments about things I learned from the survey in the text of the article below. ***My comments are in italics.*** *I got so many terrific comments and tips that I can't pass them all along within the context of the article. I will be asking those who answered my questions for permission to publish their answers. I hope to post them on our biennial budget webpage,* www.mrsc.org/subjects/finance/budgets/biennial.aspx*, sometime in September.*

Biennial Budgets in Washington's Cities and Counties – Revisited[1]

By Mike Bailey, Finance Director, City of Redmond,
with comments by Judy Cox, Public Finance Consultant, MRSC

Budgeting for a two-year biennium has been permitted for Washington cities since 1985 and for counties since 1995. This article discusses the various experiences of those cities and counties that have switched to a biennial budget and draws some conclusions about the usefulness of such an approach.

Approximately 46 cities and six[2] counties have worked with some form of biennial budget since the legislature created this alternative. While the law generally describes how biennial budgets can be structured, we found there are a variety of approaches being used. Of the 46 cities that have used the multi-year approach, ten have reverted back to a traditional one-year budget and two went back to an annual budget and then switched to a biennial budget again. One county has returned to an annual budget.

Legislative Authority

In 1985, the Washington State Legislature adopted the Municipal Biennial Budget Act, permitting all cities in Washington State to establish a biennial, or a two-year, budget. The legislature granted

[1] This article is a revision of one Mike Bailey wrote for *Budget Suggestions for 2004*.

[2] These numbers include Bainbridge Island and Seattle, which adopt annual budgets with "endorsed" budgets for the second year, and King County, which started using a biennial budget for some departments in 2013-2014 and plans to switch the remaining departments to a biennial budget in 2015-2016.

the same authority to counties in 1995. The law permits cities and counties to adopt a two-year appropriation. An appropriation represents a local government's legal authority to expend funds. Traditionally, the appropriations have been for one-year terms. Biennial budgets have extended this legal authority so that a city or county legislative body may approve an appropriation, or budget, for a full two-year term without subsequent action (note, however, that a "mid-biennium review" is required and could be considered a subsequent action).

Cities are required to make the decision to use a biennial budget by ordinance. The legislative authority for cities is found under ch. 35.34 RCW (or ch. 35A.34 RCW for code cities). This ordinance must be passed *at least six months before the beginning of the biennium, and a biennium must start on an odd numbered year*. For instance, to begin using a biennial budget for 2015/2016, a city council must adopt an ordinance choosing to use a biennial budget by June 30, 2014. Once a city is using a biennial budget, it can revert back to an annual budget, by ordinance, at the end of a biennium.

Counties find the authority for biennial budgets in RCW 36.40.250. They have more flexibility in choosing when to start their first biennium and when the ordinance or resolution providing for a biennial budget must be adopted.

Reasons for Using a Biennial Budget

Saves Time. The most common reason we hear for using a twenty-four-month appropriation is to consolidate the amount of effort invested in the budget development and approval process. This is true for the finance staff and the department staff preparing the budget materials, and for the council, which reviews the materials and eventually adopts a budget.

While it is agreed that it takes more effort and time to prepare a twenty-four-month budget than a traditional twelve month budget, it does not take *significantly* more time. As a result, over the two-year period, there is a substantial time savings. While this benefit may be obvious as it relates to the staff, the council will also realize a significant time savings that can be invested in other matters.

In our case (Redmond), we invest this time savings in other budget-related matters, such as strategic planning, special project analysis, and performance measurement. Many local government best practices are difficult to implement due to time constraints, and a good example is improved performance management. The significant amount of time devoted to each annual budget can make it difficult to invest adequate time in these other topics, including the performance management aspects of our budget systems. This realization is what specifically led to the recommendation to the Lynnwood city council (when I was working for that city) that it adopt a biennial budget process. In the first biennium, the success of this strategy was already apparent. It enabled staff to refine strategic plans in the "off-budget year" (that is the year during which you would typically be doing an annual budget, but don't need to because of the biennial budget). The council was also able to devote time to review and use the plans more effectively in directing city resources over future years.

In Redmond, we have been able to use the "off-budget year" to develop a Long Range Financial Strategy, conduct studies (such as on our fleet operation, development fees, indirect cost allocation, and others), and work on improving performance management. In addition, Redmond uses a time-intensive "Budgeting for Outcomes" (BFO) budget model. This approach takes almost a full year to complete. The biennial budget provides us an opportunity to use the BFO approach and not be constantly budgeting. We also use the off-budget year to assess the lessons learned in our prior BFO process and make improvements each cycle.

Almost every entity noted the time savings of a biennial budget. And, they had a multitude of different ways to use the freed-up time. Not having to produce a budget document in the "off" year was mentioned as a big plus by many entities. One city pointed out the extra time provides flexibility to make adjustments in workload when delays occur or something comes up that needs to be dealt with.

Longer Perspective. Another advantage for the use of a biennial budget is the longer perspective it gives the organization in its budgetary planning Multi-year financial planning has been a recommended practice for a long time (see "Government Finance Officers Association Recommended Budget Practices")[3]. Some cities and counties use these "financial plans" to guide the. for formal budgeting that occurs each year. These financial plans do not have the form of an appropriation in an ordinance, so while they help provide focus, they do not take the place of the budget itself. A biennial budget extends the planning horizon of the legal budget appropriation. A budget is an inexact estimate of revenues and authorization of permitted expenditures. The longer view emphasizes the planning aspect of budgeting and this can be good, but it can also introduce difficulties to the process related to forecasting (discussed below).

A city administrator used a vivid analogy to emphasize the benefits of a longer perspective: "It forces us to think longer term and take longer term actions. In an environment of diminishing resources, it is fairly easy to kick the can down the road and save the tough budget-balancing decisions for the next year. With a biennial budget, it is harder to do that. If you are going to kick the can, you have to kick it harder and further."

And a finance director almost waxed poetic: [A biennial budget] shifts the eyes of the organization up to look out two years rather than just one year ahead….[H]elpful in extending the financial vision for an organization (a six-year forecast now becomes three biennial budgets)

Another finance director finds a biennial budget to be "more transparent on full program costs" when a new program may only incur some of the costs in the first year.

Potential Improvement in Policy View. A variation on the "Longer Perspective" argument is the substantial time available to the policy makers to strategically address financial issues. When budgeting every year, the focus is on *how to balance each budget* rather than on *overall strategic planning*. Finding the time to think strategically is not the normal course of business and is often difficult. The biennium helps create this time and focus attention on future biennia, rather than just finding a way to balance revenues and expenditures.

[3]"Long-Term Financial Planning," GFOA Best Practice, 2008http://www.gfoa.org/downloads/LongtermFinancialPlanningFINAL.pdf.

The off-budget year allows the council to invest time on strategic issues. For example, I've already mentioned the Long Range Finance Strategy developed in Redmond.[4] Redmond has also developed a Capital Investment Strategy (CIS) in the off-budget year. This tool extends the capital facilities plan out to the planning horizon used in the Comprehensive Plan. The CIS looks out twenty years into the future and assesses the capital investments needed to provide the infrastructure that supports our land-use plans.

Like Redmond, many of the entities spend their extra time the second year developing new policies or fine-tuning existing ones. One city mentioned that the biennial budget helps with contract negotiations – they have put all their contracts, including labor, on the same cycle.

Political Implications. Currently, an annual budget means that every other budget is developed in the context of local elections for many of the policy makers. By design, the city biennial budget is considered in non- election years, as the biennium must be started in odd-numbered years. Counties can also choose this timing as well. Even if politics do not complicate the budget decision making, the elections take a significant amount of a policy maker's time and attention.

Reasons Against Using a Biennial Budget

Some cities (12 by our count) and one county have tried biennial budgets and reverted back to annual budgets. (Two of those 12 cities have subsequently returned to biennial budgets.) Their reasons coincide with those we have heard arguing against using a biennial budget.

Loss of Control. One of the concerns expressed was a loss of control over budgeted expenditures. While we are not aware of examples of serious budget problems attributed to the use of a biennial budget, loss of control was identified as a problem significant enough to lead some cities to revert back to an annual budget. In one of these situations, the city council felt it lacked adequate control over the budget and initiated the return to an annual budget.

Two respondents reported that the "council feels as if it is losing something." One person emphasized that the staff and administration need the council's trust. Another said he reminded the council that the city could always go back to an annual budget if it wanted to; this reassured them.

Providing enough time for deliberations so the council does not feel pressured was another suggestion for raising the council's comfort level. "Let there be as many meetings as required. Don't rush the Council. If time runs out before the agenda is complete, move it to the next meeting. We schedule all the meetings up front and add an additional meeting or two in the event we need it. Therefore, the worst case would be not having to meet."

A number of cities commented that their councils liked having the extra time to work on non-budget issues; that the council thought a biennial budget provided a better use of the city resources than an annual one.

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[4]A copy of the report, "Redmond's Financial Strategy: A six-year long-range financial strategy," Revision No. 1, Adopted November 15, 2011, can be found at www.mrsc.org/govdocs/r42lrfs.pdf.

Change in Leadership. In a few examples, a new finance director or new city manager did not want to use a biennial budget. The reasons stated were concern over the extended term of the forecasts and the potential for changes in economic conditions. This is more likely in situations where someone new to the city is faced with making these important recommendations.

Difficulty in Forecasting. Another reason cited against the use of biennial budgets is the difficulty in forecasting revenues and variable expenditures. Two-year budgets require all the estimates and forecasts, which were already difficult enough to do for twelve months, now be done for a twenty-four-month period. Forecasting sales taxes, medical benefit costs, changes in pay for staff, and many other variables in a budget can be tricky. It is more than twice as tricky for twice the period of time. Changes in the economy, in state and local laws, and other changes may further complicate the ability to develop accurate estimates for budget development.

I asked a few cities whether the anticipated time savings from a biennial budget were taken up by trying to balance the budget during the recession. One city said they began talking about reductions right after adopting the 2009-2010 budget, and it seemed as if it was "all budget, all the time" during that biennium. I suspect that I would have received more answers like this one if I had asked a specific question rather than simply saying "What do you like least about a biennial budget?" Another respondent commented on the cumulative effect in the second year of receiving revenues lower than forecast in the first year. He also pointed out that "budget deficits tend to be larger in scale when looking at a two-year period and therefore are inherently more difficult to resolve, although the reality in some cases is that you do have a longer period of time to address the deficit."

Some cities, which in "normal times" allowed their department heads to have lots of flexibility in spending their budget (see below), noted that during the recession they watched first year expenditures more closely and warned their departments that funds remaining from year 1 would only be available to them for year 2 expenditures with the approval of the finance director. Of course, in some cities, year 1 under expenditures are never available to the departments, even in "good" years.

Not realizing the anticipated time savings due to an extensive mid-biennium process. I've heard an entity that tried a biennial budget and then reverted back to an annual budget (and since then reverted back again to a biennial budget) explain that they just didn't see the anticipated time savings during the off-budget year. This was true as a result of either the staff (but usually the city council) wanting the process to include virtually all the normal steps of a traditional budget process. The concern was that the extra effort to do a biennial budget did not result in any efficiencies in the off-budget year – so why do it!

This does point out a tip that I provide those who have asked me about moving to a biennial budget. If you plan to make the change, it will require discipline to manage the mid-biennium budget review (described below) to be a tune-up of the budget. Those that let the review process become another budgeting free-for-all will soon find any time savings erode into this process.

What to do during the mid-biennial review period appears to be a learning process. A number of cities mentioned this as an issue. One said "…we have moved from being pretty nit-picky about the mid-biennial adjustments to line items and are now more focused on the big picture…"

Software problems: *Mike did not mention this, but some of the survey respondents did. "The biggest challenge of biennial budgeting is software limitations," said one. Perhaps they need to contact Walla Walla, which responded, "Our financial software has a budgeting module that works well with biennial budgets."*

Forms of Biennial Budgets

The concept of a two-year appropriation is pretty straightforward and is just like it sounds. Rather than a twelve-month window during which the appropriated funds can be legally committed to accomplish the purpose of the government, a biennium provides for a twenty-four-month window. However, while a true biennial budget simply doubles the length of time for which the budget is effective, many cities and counties have adopted variations of this theme.

The reasons why governments choose to use a biennium, and some of the arguments against such a choice, help describe some of the various forms of biennial budgets that we see in use today. The two-year budget is touted as an opportunity to widen the budget-planning horizon and allow more long-term thinking to be a part of the financial planning that the budget represents. This is one of the most common reasons we hear for the use of a biennial budget. On the other hand, we *do not* hear governments choosing this approach because of the greater latitude it provides staff to spend their appropriation over the course of the twenty-four months.

Some of the concerns about using a biennial approach are that staff may not discipline themselves adequately and may spend more of the budget than they should too early in the biennium. As a result, a number of cities and counties choose to restrict access to the second year of the biennium. This restriction is often implemented through the actual ordinance or resolution adopting the biennial budget itself. In other cases, there is no real limitation, but all the reports and budget analyses are done for each separate year.

Seattle and Bainbridge Island, for example, appropriate funds for only the first year and display numbers for the second year in their budgets as "endorsed."

Nine cities (of the other 34 that we know adopt biennial budgets) and two of the four counties adopt *two, one-year budgets* in their ordinances or resolutions.

The remaining 25 cities and two counties use a two-year appropriation in their budget ordinances (or resolutions). However, they do not all display this information in their published budgets in the same fashion or really allow expenditures to take place in the manner implied.

For example, as far as I can tell from the survey responses,[5] 10 of these cities (and one county) do not limit how much their departments can spend in either year of the biennium.[6] Eight of the cities and the county show the expenditures in their budget documents for the two years together, in a single column. The other two cities display the expenditures in separate columns for the two years

[5]Two cities did not respond to the survey.

[6]An exception was during the recession when some said they did tell departments to hold back on their year 1 expenditures. Then they either captured the savings at the end of the first year to cover revenue shortfalls or told the department heads that they needed finance director or city manager approval to spend them.

of the biennium. Four cities and one county appear to be quite firm in restricting expenditures to those planned or allocated for years 1 and 2. They make no mention of possible exceptions.

If you think of each of these two groups as being at opposite ends of a spectrum, then two of the remaining cities appear to be closer to the more flexible end and seven to the more "firm." However, these seven all expressed some willingness to work with a department that wanted to spend more than the planned amount for year 1. And, one even allows carryovers from year 1 (not because the finance director favors it, but because the council does.)

So, there are lots of different ways to do biennial budgets—from adopting only the first year and endorsing the second to adopting two annual budgets to adopting a biennial amount and then setting up the "spending rules" in a number of different ways. Cities and counties in different financial situations, in different parts of the state, and with differing philosophies about budgeting should all be able to find some version that works for them.

A chart of the cities and counties that use biennial budgets (at least as best we can tell) may be found at the end of this article. Some of the unique characteristics of the individual approaches are listed as well.

Requirements for a Biennial Budget

As previously discussed, an ordinance (or resolution for counties) must be adopted that opts for a biennial budget process. In the case of cities, the biennium must start on an odd-numbered year (2015 would be the next opportunity). The ordinance to use a biennial budget must be adopted at least six months prior to the start of the biennium (again this applies to cities only).

The requirement for cities spells out the steps for developing a biennial budget, while the county statute refers to the annual budget process for guidance. Actually, the required steps for an annual budget development and a biennial budget are very similar. One distinction is the requirement in RCW 35A.34.130 for a "mid-biennium review and modification." This review and modification is to start no sooner than September 1 and be completed by the end of the year. The purpose of the review and modification is essentially to tune up the budget for any needed refinements (or make larger changes, if needed). This review and modification process requires public hearings. if any modifications to the budget are recommended . As in many of the other provisions related to biennial budgets, the requirements for the mid-biennium review and modification are spelled out in detail for cities and very generally for counties.

As previously indicated, the decision to revert to an annual budget must be made by ordinance and can be effective only at the end of a biennium.

More on Personal Experiences

Implementing a biennial budget was, in many respects, not overly difficult. I would say the biggest difficulty we had was focusing on the full twenty-four-month period during budget deliberations with the city council. It seemed that our discussions focused far more on the first twelve months, at the expense of the second half of the biennium. This was so extensive that there was a fair amount of confusion about what the second twelve months included. It didn't help that a contracting economy also significantly complicated the budget process. However, we got much better at looking at the full 24 months in subsequent cycles.

The development of the forms and the assumptions used in the budget was pretty straightforward. Adding the second year to the forms was relatively easy, with the exception of the payroll and benefits forms and the forms for new program proposals. While adding a second year to these was not difficult, we had to agree on which assumptions to use for pay and benefits. Based on the formats we chose, the year that new programs were to begin was also at times unclear. Our success depended on constant communication and the cooperation of department staff working to develop the budget.

I've implemented a biennial budget in Lynnwood, set the stage for reverting back to the biennial approach in Renton, and inherited a very mature biennial budget process in Redmond. Overall, I believe the advantages of the biennial budget significantly outweigh the disadvantages. It is my hope that the discussions in this article have enabled you to evaluate whether a biennial budget is right for you. If you still have questions, feel free to contact me at the City of Redmond.

Cities and Counties That Do Biennial Budgets

Cities	Started	Form	Comments
Auburn	2009-2010	Two one-year budgets	
Bainbridge Island	2009-2010	Appropriation for one-year	"Endorsed" budget for second year.
Battle Ground	2009-2010	Appropriation for two years	Expenditures restricted each year to administrative allocations in budget document.
Bellevue	1997-1998	Appropriation for two years	Each year shown separately in budget document. Like flexibility of two years, but monitor departments annually.
Bonney Lake	2007-2008	Appropriation for two years	Separate years shown as "Estimated Allocations" in budget ordinance. Department heads restricted to those amounts.
Bothell	2003-2004	Appropriation for two years	"True biennial budget –department heads have full authority to spend in any way they see fit…."

Cities	Started	Form	Comments
Burien	2009-2010	Appropriation for two years	Each year shown separately in budget document and year 1 spending is restricted, but may carryover to year 2.
Federal Way	1997-1998	Two one-year budgets	
*Fife	2013-2014	Appropriation for two years	"Conditions" council puts on spending more like two one-year budgets.
Hoquiam	2009-2010	Appropriation for two years	Budget document contains two-year appropriation. Their department heads are "good" with budgets and don't overspend.
Kelso	2013-2014	Two one-year budgets	
Kenmore	2013-2014	Appropriation for two years	True biennial budget. Planned amounts for each year shown in budget, "but department heads can spend entire appropriation in year 1."
Kennewick	1995-1996	Appropriation for two years	Two-year total shown in budget document. Basic policy is no limitations on how much can be spent in any one year.
Kirkland	2005-2006	Appropriation for two years	Two-year total shown in budget document. Departments create budgets for each year, but can go over. Usually can carry forward unspent funds from year 1.
Lake Forest Park	2007-2008	Two one-year budgets	

Cities	Started	Form	Comments
Lakewood	2011-2012	Appropriation for two years	Each year shown separately in budget document and department heads are restricted to those amounts. Previously had biennial budget for 2003-2004 and 2005-2006.
Longview	1997-1998	Appropriation for two years	Each year shown separately in budget document for planning purposes. Departments only need to “stay within biennial appropriation.”
Lynnwood	2003-2004	Appropriation for two years	Each year shown separately in budget document.
Mercer Island	1991-1992	Appropriation for two years	Each year shown separately in budget document and department heads are restricted to those amounts.
Mill Creek	1997-1998	Appropriation for two years	Budget document shows biennial amount. “No first year guidelines. We expect them to do right thing.”
Mountlake Terrace	2003-2004	Two one-year budgets	
Normandy Park	1999-2000	Two one-year budgets	
Oak Harbor	1989-1990	Two one-year budgets	
Redmond	1997-1998	Appropriation for two years	Gives complete latitude to departments to spend for biennium, monitoring and offering counsel when needed, which is not very often.
Renton	2011-2012	Two one-year budgets	Previously had biennial budget for 1999-2000 biennium only.

Cities	Started	Form	Comments
Sammamish	2007-2008	Appropriation for two years	Separate years shown for "Reference" in budget ordinance. Departments restricted to those amounts, but will work with one that wants to spend more in year 1.
SeaTac	2013-2014	Appropriation for two years	Separate years shown for "Reference" in budget ordinance. Departments do have flexibility, but they are tracked on annual amounts.
Seattle	1997-1998	Appropriation for one year	"Endorsed" budget for second year.
Steilacoom	1995-1996	Appropriation for two years	Each year shown separately in budget document and department heads are restricted to those amounts.
Sumner	2009-2010	Appropriation for two years	Two year total shown in budget document and department heads "have generous discretion in managing appropriations."
Tacoma	1991-1992	Appropriation for two years	
Tukwila	2009-2010	Appropriation for two years	Each year shown separately in budget document and department heads are restricted to those amounts.
Tumwater	2011-2012	Appropriation for two years	Each year shown separately in budget so finance director knows timing for cash flow purposes. No penalty for overspending year 1.
University Place	1999-2000	Two one-year budgets	

Cities	Started	Form	Comments
Vancouver	1985-1986	Appropriation for two years	Each year shown separately in budget document and department heads are restricted to those amounts.
Walla Walla	2009-2010	Appropriation for two years	Each year shown separately in budget document and department heads are restricted to those amounts.
*West Richland	2013-2014	Appropriation for two years	True biennial budget.
Woodinville	2005-2006	Appropriation for two years	Each year shown separately in budget document. Can carryover year 1 savings.

**Information highlighted in yellow has been added since this publication was published in August 2013.*

Counties	Started	Form	Comments
Benton	2011-2012	Appropriation for two years	“Line item budgeting.”
Clark	1999-2000	Appropriation for two years	Manages its budget at the category level. "100s" and "200s" (salaries and benefits) may not be moved to other categories and require a transfer.
Cowlitz	2002-2003	Two one-year budgets	
King	2013-2014		Started using biennial budget for some departments.
	2015-2016		Will use biennial budget for all departments.
Whatcom	2005-2006	Two one-year budgets	

Cities and Counties That Have Ceased to Do Biennial Budgets

City/County	Started	Ended	Comments
Bremerton	?	2003	New finance director.
Edmonds	2007-2008	2011	Council and staff turnover.
Marysville	?	?	Council felt it lost control.
Monroe	1991-1992	1993	Huge growth made second year hard to forecast.
Ocean Shores	2003-2004	2009	
Olympia	Mid 1980's	Mid 1980's	New city manager.
Port Angeles	1987-1988	1993	Did not save enough time.
Puyallup	2009-2010	2011	One-year budget has more flexibility.
Sunnyside	2011-2012	2013	Anticipated benefits not realized because of demand for adjustments.
Toppenish	1987-1988	1989	
*Yelm	2009-2010	2011	
Kitsap County	2003-2004	2007	

**Information highlighted in yellow has been added since this publication was published in August 2013.*

The Sun Is Still Shining: Most Uses of Lodging Tax Revenues are Preserved

By Judy Cox, Public Finance Consultant, MRSC

In a nutshell: With the passage of ESHB 1253, all the current allowed uses of lodging tax funds have been preserved except ***one—lodging tax funds may no longer be spent on capital expenditures for tourism-related facilities owned by nonprofit organizations.*** In this bill, the legislature also:

- added some application requirements;
- changed the procedures for making funding decisions in cities and counties with a population of 5,000 or more; and
- revised the reporting requirements.

As some of you may recall, the new uses of lodging tax funds introduced by legislation in 2007 were due to sunset on June 30, 2013. These uses – 1) operation (as opposed to just “marketing”) of special events and/or festivals designed to attract tourists; and 2) support of the operations and capital expenditures of tourism-related facilities owned by non-profit organizations – were very popular with some cities and counties. The Association of Washington Cities (AWC) and the Washington State Association of Counties (WSAC) tried last year to get the sunset dates removed or extended (see my blog, “Hotel-Motel Tax Alert,” June 15, 2012), but they were unsuccessful.

This year was a different story. Through the diligent efforts of Victoria Lincoln, AWC Government Relations Advocate; Serena Dolly, AWC Government Relations Analyst; and Josh Weiss, WSAC Director, Policy and Legislative Relations and General Counsel, almost all these uses were preserved in ESHB 1253. They did a great job.

What Are the Allowable Uses Now?

ESHB 1253 repealed the sunset clauses and made some amendments to RCW 67.28.1816. RCW 67.28.1815, which also lists uses, is unchanged. The sum total of these changes leaves us with all the same uses that have been allowed since 2007 ***except*** spending lodging tax funds on capital expenditures for tourism-related facilities owned by non-profit organizations. As a result:

- You can still spend lodging tax funds on tourism promotion, including operating special events and festivals in addition to marketing. All the language in the definition in RCW 67.28.080(6) is still there!
- You can spend lodging tax funds for ***operating expenditures*** of tourism-related facilities owned or operated by nonprofit organizations.

- Spending lodging tax funds for the ***operations and capital expenditures of city- and county-owned facilities*** was never at risk, so they are still permitted uses and are now specifically mentioned in Section 1(1)(c) of ESHB 1253.

Review pages 32-33 in *A Revenue Guide for Washington Cities and Towns* (http://www.mrsc.org/publications/rgcity2009.pdf) or pages 40-41 in *A Revenue Guide for Counties* (www.mrsc.org/publications/countyrg10.pdf) for a discussion of all these allowed uses.

What Are the New Application Requirements?

Section 1(2)(a) of ESHB 1253 states that applicants for any use of lodging tax revenues must now provide:

> estimates of how any moneys received will result in increases in the number of people traveling for business or pleasure on a trip:
>
> > (I) Away from their place of residence or business and staying overnight in paid accommodations;
> >
> > (ii) To a place fifty miles or more one way from their place of residence or business for the day or staying overnight; or
> >
> > (iii) From another country or state outside of their place of residence or their business.

Applicants to a city or county with a population of less than 5,000 submit their applications to the city or county as they have done in the past.

What Additional Procedures Apply to Cities and Counties with a Population of 5,000 or More?

As set out in Section 1(2)(b) of this bill, applicants for lodging tax funding from a city or county with a population of 5,000 or more must now submit their applications (which must include the estimates listed above) to the city or county lodging tax advisory committee (LTAC). The LTAC must select the candidates for funding from these applicants and provide a list of the candidates and recommended amounts of funding to the city or county for final determination. The city or county legislative body may choose to make awards in the recommended amounts to all, some, or none of the candidates on this list.

How do we “harmonize” this new application requirement with the procedures set out in RCW 67.28.1817(2)?

Under RCW 67.28.1817, in a city or county of 5,000 or more, applicants submit their funding requests to the city or county, not the LTAC. Section 2 of the statute reads:

> Any municipality that proposes imposition of a tax under this chapter, an increase in the rate of a tax imposed under this chapter, repeal of an exemption from a tax imposed under this chapter, or a change in the use of revenue received under this chapter shall submit the proposal to the lodging tax advisory committee for review and comment. The submission shall occur at least forty-five days before final action on or passage of the proposal by the municipality. The advisory committee shall submit comments on the proposal in a timely manner through generally applicable public comment procedures. The comments shall include an analysis of the extent to which the proposal will accommodate activities for tourists or increase tourism, and the extent to which the proposal will affect the long-term stability of the fund created under RCW 67.28.1815. Failure of the advisory committee to submit comments before final action on or passage of the proposal shall not prevent the municipality from acting on the proposal. A municipality is not required to submit an amended proposal to an advisory committee under this section.

If the city or county is proposing, say, the initial imposition of a lodging tax or an increase in the rate of a tax, it would still send the request to the LTAC for review and comment, and the remaining provisions of RCW 67.28.1817(2) will still apply. There are no changes. However, when the issue is the "use" of the funds or a "change in use," then we need to harmonize this language with the new language in Section 1(2)(b) of ESHB 1253.

Bob Meinig, the MRSC attorney who has graciously allowed me to draft him into working on lodging tax issues, offers the following suggestion:

> When an applicant for lodging tax money submits their application to the LTAC, the council could not act on any application that is included among the candidates selected by the LTAC until at least 45 days after the particular application was submitted to the LTAC. It's a bit tortured, but it's the best way I see right now to harmonize these two statutes. I think each jurisdiction should establish a schedule by which applications must be made, for that year or six-month period or whatever, and the council or board (if county) would then not act on the applications until at least 45 days after that deadline.

I think that either the city council or the board of county commissioners or the LTAC, with the consent of the council or board, could establish procedures regarding calls for applications, deadlines, etc.

What Are the New Reporting Requirements?

Section 1(2)(c)(I) of the bill provides:

> All recipients must provide a report to the municipality describing the actual number of people traveling for business or pleasure on a trip:
>
> > (A) away from their place of residence or business and staying overnight in paid accommodations;
> >
> > (B) to a place fifty miles or more one way from their place of residence or business for the day or staying overnight; or

(C) from another country or state outside of their place of residence or their business.

The city or county receiving a report must make it available to the legislative body and the public and furnish copies to the Joint Legislative Audit and Review Committee (JLARC) and members of the local LTAC. The JLARC must biennially report to the legislature's economic development committees on the use of lodging tax revenues by municipalities. Reporting under this subsection must begin in calendar year 2015.

The statutes say nothing about when cities and counties must forward the reports to their legislative body and the JLARC. The JLARC is developing an electronic form and guidelines for cities and counties to test.

So, the sun is still shining on most uses of lodging tax revenues.

Lodging Taxes: Beyond the Sunset

By Association of Washington Cities Staff
July 2013

In 2007, the Legislature granted new uses for hotel-motel, or lodging, tax revenue, including:

- Funding the operation of special events and/or festivals designed to attract tourists (as opposed to marketing, which was already authorized); and

- Funding the operations and capital expenditures of tourism-related facilities owned by non-profit organizations.

The legislation contained a sunset (or expiration) date of June 30, 2013. This session, the Legislature passed **HB 1253**, which extended nearly all of these uses for lodging taxes. The bill also changed the role of Lodging Tax Advisory Committees and reporting requirements.

What can a municipality fund with lodging tax revenue beginning July 1, 2013?

Lodging tax revenue can be used for all of the uses in place before July 1 except funding the capital expenditures for tourism-related facilities owned by non-profit organizations. Specifically, lodging taxes can continue to be used for:

- Tourism marketing.

- Marketing and operations of special events and festivals.

- Operations of tourism-related facilities owned or operated by nonprofit organizations.

- Operations and capital expenditures of tourism related facilities owned by municipalities or public facilities districts.

How must an applicant apply for lodging taxes?

In municipalities of at least 5,000 population, applications must be submitted directly to the LTAC. In municipalities of less than 5,000, applications are submitted to the city or county as they have been in the past.

All applications must include estimates of how funding the activity will result in increases to people staying overnight, traveling 50 miles or more, or coming from another state or country. To ensure this data is collected, cities should require this information on their lodging tax application forms.

There is no requirement that priority for funding be given to applicants expected to generate the most travelers, and lodging tax revenue may still be awarded to recipients who generate few or none of these types of travelers.

What is the role of the Lodging Tax Advisory Committee (LTAC)?

In a municipality of at least 5,000 population, the LTAC receives all applications for lodging tax revenue and recommends a list of candidates and funding levels to the municipality's legislative body for final determination.

If a municipality under 5,000 chooses to establish a LTAC, they may, but do not have to, follow these requirements.

What does the municipality do with the LTAC's recommendations?

The legislative body "may only choose recipients from the list of candidates and recommended amounts provided by the local lodging tax advisory committee." However, the city or county does not have to fund the full list as recommended by the LTAC and can choose to make awards in the recommended amounts to all, some, or none of the candidates on this list. The selected recipients must be awarded the amounts recommended by the LTAC.

Does a municipality have to apply to the LTAC for its own projects?

AWC has received different opinions on this issue. However, the State Auditor's Office interprets the new provisions as requiring municipalities to submit an application to the LTAC. Except for projects with a contract or bond obligation already in place, we encourage municipalities to submit applications for their own projects to the LTAC.

What happens to any lodging tax revenue not awarded through the process?

A municipality does not have to make all funds available, or award all funds available, each year. Any revenue remaining may be carried over to future funding cycles.

Cities and counties may want to develop a policy as to how often lodging tax revenue is awarded and what happens to any remaining revenue.

How often should the LTAC recommend and the municipality award lodging taxes?

The law is silent on how often the awards should be made (annually, semi-annually, quarterly, etc.). Some jurisdictions choose to make awards as part of their annual budget cycle. Others make mid-year awards to account for unexpected increases or decreases in projected revenue.

Who must report and how?

All recipients of lodging tax revenue, regardless of what the revenue is to be used for, must submit a report to the municipality describing the actual number of travelers generated. Municipalities should, as part of their contract with recipients, require that the report be provided immediately after the event or activity.

The municipality must make the report available to the public, the local legislative body, the local LTAC members, and the Joint Legislative Audit and Review Committee (JLARC).

JLARC has developed an electronic reporting form for municipalities to submit the required information and is seeking cities and counties to test that form for the remainder of 2013.

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Why Is Vancouver's Sales Tax Rate Higher than Ours?

This is the time of year when councils are looking for more revenue and we start getting a form of the following question:

"Why is the sales tax rate in Vancouver (or Wenatchee or Seattle or Spokane, etc.) higher than our rate?" Let's assume the call came from Kalama.

"That's a good question. Let's take a look." I start by showing them how to check the current tax rates of all the cities and counties in the most current "Local Sales and Use Tax Rates and Changes Flyer. " (Go to www.dor.wa.gov/content/home/. Click on "Get a Form or Publication" on the left, "Publications by Subject" on the left, "Local Sales Tax" at the top of the right-hand column, then "Local Sales and Use Tax Changes" at the top. Note that you will want the option right under this one – "Local Sales Tax Change Notices" – in just a bit.)

The edition I am looking at as I write this is "2013: Quarter 3." The information is arranged by county and, if you scroll down to Clark County, you will see that the combined sales tax rate for Vancouver is 8.4%. And the combined rate (look under Cowlitz County) for Kalama is 7.7%. If you scan down the column titled "State Rate," you will see that the sales tax rate for the state is 6.5% in every jurisdiction. So, to identify the differences in the combined rate, we want to look at the *local tax rate*. The local rate is 1.9% in Vancouver (8.4% - 6.5%), and it is 1.2% (7.7& - 6.5%) in Kalama.

Now until July 2009, the Department of Revenue (DOR) broke out the components of the local tax rate for every city and county in a nifty interactive table. (Start out at the DOR Home page again www.dor.wa.gov/content/home/ again. Click on "Get Statistics and Reports" in the second column, then "Create a Report" in the second column.) Click on the "Historical Local Tax Rates" tab and scroll down to Clark County and find Vancouver. Then click on the "Lookup Historical Rates" button and you will get a chart that looks something like this.

Vancouver

Effective Date	Basic	Optional	Transit	Criminal Justice	Mental Health	Total Local
4/1/2007	0.005	0.005	0.005	0.001	0.001	0.017
1/1/2006	0.005	0.005	0.005	0.001	0	0.016
3/1/1999	0.005	0.003	0.003	0.001	0	0.012
1/1/1989	0.005	0.003	0.003	0	0	0.011
4/1/1988	0.005	0.003	0.002	0	0	0.010
4/1/1984	0.005	0.001	0.002	0	0	0.008
1/1/1981	0.005	0	0.003	0	0	0.008
1/1/1971	0.005	0	0	0	0	0.005

All the components of the local tax rate in Vancouver up through the second quarter of 2009 are shown, along with the date that the rate changes were enacted: Basic 0.5%; Optional 0.5%; Criminal Justice (levied by the county and shared with cities) 0.1%; Mental Health 0.1%; and Transit 0.5%. The total is 1.7%.[1] However, we know from the Local Sales Tax flyer that the local rate in Vancouver as of July 1, 2013, is 1.9%. So we need to account for an additional 0.2% that has been levied since this table was last updated in the second quarter of 2009. Before we do this, however, let's also get the historical data for Kalama. Click on "Back to Search" and scroll down to Cowlitz County and find Kalama.

Kalama

Effective Date	Basic	Optional	Transit	Criminal Justice	Total Local
4/1/2005	0.005	0.005	0	0.001	0.011
7/1/1982	0.005	0.005	0	0	0.010
1/1/1971	0.005	0	0	0	0.005

Kalama has the Basic 0.5% rate and the Optional 0.5% rate also. In addition, the county is levying the criminal justice sales tax of 0.1% for a total rate as of the second quarter of 2009 of 1.1%. This is less than the 1.2% rate shown in the July 1, 2013 flyer.

Bringing the historical information in these tables up to date.[2] To do this, we have to look through a listing of all the sales tax changes since that time. Yes, it is a bit of a pain, but it goes pretty quickly once we get to the page that shows the Local Sales Tax Change Notices." Go to www.dor.wa.gov/content/home/ again. Click on "Get a Form or Publication" on the left, "Publications by Subject" on the left, "Local Sales Tax" at the top of the right-hand column, then "Local Sales Tax Change Notices," the second item from the top. This lists all the sales tax changes for every quarter, with the most recent quarter listed first. We are looking for any change that lists "Vancouver" and/or "Clark County" (we are looking for additional taxes that add up to 0.2%) and "Kalama" and/or "Cowlitz County" (we are searching for an additional 0.1% change).

So scroll down and "Wait, right there under April 1, 2013, is 'Cowlitz County Mental Health.'" And, if you click on that, you will see an announcement of the levy of a 0.1% tax for mental health and in the table below, it shows the new combined tax rate for the county and all the cities. The new local rate for Kalama is 1.2% and so we have now identified all the pieces of the local tax in Kalama.

Now we look for Vancouver or Clark County and under April 1, 2012 is "Clark County Transportation Tax." And, clicking on the link we see that the tax increase was 0.2%, which increased Vancouver's local rate to 1.9% and we know that is the current rate. Let's say that the increase in the transportation tax had only been 0.1%. In that case we would have to scroll down

[1]Note that I have multiplied all the numbers in the table by 100 to get percents.

[2]The department stopped adding to the database in 2009 due to budget cuts.

further and look for some other local tax increase that had occurred in a prior quarter in order to account for all the pieces of the 1.9% rate.

We can put this information in a table that shows the components of the sales tax in the two cities.

Tax	Vancouver	Kalama
State Rate	6.5%	6.5%
Basic & Optional	1.0	1.0
Criminal Justice	0.1	0.1
Mental Health	0.1	0.1
Transportation	0.7	
Total Combined Rate	**8.4%**	**7.7%**

The reason why the Vancouver sales and use tax rate is 0.7% higher than the rate in Kalama is because the Vancouver rate includes a 0.7% tax for public transportation. None of the difference goes into the Vancouver general fund. There is an additional tax that both Kalama and Vancouver could be levying – the 0.1% tax for public safety under RCW 82.14.450. However, all the other possible sales and use taxes can only be levied by the county and they are for restricted funds. You can read more about these other sales taxes in *A Revenue Guide for Washington Counties*, www.mrsc.org/publications/countyrg10.pdf, starting on page 25.

"Fire PALS" Bill Makes Sense of Fire Hydrant Funding…. But be Sensible When you Implement It

By Hugh Spitzer, Foster Pepper PLLC

A consortium of cities, counties, fire entities, water utilities, and governmental associations teamed up during the recent regular legislative session to gain passage of SHB 1512, a bill clarifying that both public and private water providers may allocate the costs of transmission systems, hydrants and other "fire suppression water facilities" to their customers.

The bill was intended to end uncertainty caused by Washington Supreme Court decisions in several cases, particularly *Lane v. Seattle* in 2008. *Lane* decided that because fire fighting is a "general government" responsibility, charging water utility customers for the cost of fire hydrants is a hidden, unauthorized, "tax." *Lane* did not address the cost of water or the cost of pipes, pumps and other facilities necessary to produce fire flow. Nor did it address whether *counties* as general governments, or *fire districts* as tax-financed special purpose districts, were responsible for fire suppression water facilities. Further, *Lane* failed to address the fact that statutes and state regulations *require* water utilities to provide those facilities as a condition of operating public water systems.

The *Lane* case threw decades of past practice into confusion, as municipalities scrambled to determine who was responsible for providing and paying for what. Many local governments developed stop-gap approaches to address the cost of water for fire protection. Some water districts agreed to pay for hydrants and associated facilities in exchange for city agreements to refrain from assuming control of water services. In other instances, cities increased their utility taxes to collect money to pay their water utilities for fire suppression water costs. There was no consistent approach that worked for all entities, so an across-the-board solution was needed.

Initiated by the Washington Water Utilities Council and spearheaded by the Cascade Water Alliance in King County, dozens of local governments, fire marshals, private water purveyors—and their lawyers—met during the late summer and fall of 2012 to hammer out proposed legislation. Consensus was tough to reach, but the agreed-upon legislation did the following:

- Water utilities are expressly authorized to allocate and recover the costs of fire suppression water facilities from their customers, either spread to all customers as costs of complying with applicable state water laws, or charged to different classes of customers different amounts based on differentials in service such as water pressure or distance from hydrants.
- Existing contracts and other arrangements among governments for dealing with Lane are held harmless and can continue in effect.
- Counties, which had never been in the fire hydrant business, are expressly exempt from using general funds for fire suppression water facilities.

- Both municipal and private-sector water utilities are not liable for damages arising from fire events that relate to the operation and maintenance of hydrants on other facilities—this is similar to the protections provided in recent fire sprinkler legislation.

The bill was introduced by legislators from both parties and passed the Legislature with near unanimity. Passage of SHB 1512 is great news not only because it will help address the uncertainty raised by the Lane case, but also because it is an example of how remarkably diverse governmental and private interests can reach consensus if they try hard enough. The success of this effort would have been impossible without complete agreement among the various interest groups.

But SHB 1512 should be stickered with an important warning: **SHB 1512 should be *very* carefully implemented**, and local governments should work closely with their attorneys and utility rate consultants when allocating hydrant and related costs to their water utilities. From one perspective, the Lane decision is best seen as based on a judicial misunderstanding about how water customers directly benefit from the availability of fire hydrants and adequate fire flow. Therefore, ordinances that allocate costs of those facilities to water users should include findings, based on documentation presented to a city council or other relevant board, that customers *benefit* from the service. One approach is to list, in an implementing ordinance, the statutes and state regulations that mandate such facilities as a prerequisite to providing service. In that respect, the provision of fire suppression water facilities is no different than other state and federal requirements such as drinking water testing, chlorination and other treatment, or compliance with environmental and land use regulations. Another approach is to build the cost of fire suppression water facilities into rates as part of a utility's normal rate process, using engineers and rate consultants to document how the relevant facilities benefit various customer classes and basing the rates on differences among groups of customers.

By careful planning and drafting when implementing SHB 1512's cost allocation approach, the legislation will be successfully implemented and will be a real benefit to water utility customers.

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Initiatives

For 13 of the past 14 years, beginning with the discussion of Initiative 695 in *Budget Suggestions for 2000*, the last section in this publication has been devoted to initiatives that are on the ballot for the coming November general election. We include this page because we don't want to break the tradition.

For 2013, there are no initiatives! Hooray!