

# 2017

## Budget Suggestions

## **Budget Suggestions 2017**

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# Introduction

We are pleased to provide *Budget Suggestions 2017*. This is the 47th year that this publication has been produced by MRSC. From 1944-1970, Budget Suggestions was published by our predecessor organization, the Bureau of Government Research at the University of Washington. We are proud to say that this publication has been prepared for local government for over 70 years!

As always, we try to provide you with timely and relevant information to assist you with the development of your budget document, within the constraints we face in getting the information from the various federal and state agencies.

This year we have expanded the information available on the MRSC website to incorporate most of the components of the “Budget Suggestions” publication. Technology provides the ability to expand upon these budget concepts and forecasts in a way that we feel is more valuable to you. Of particular interest to all who receive state shared revenues, we now have a “revenue calculator” that allows you to click on your entity name and it will automatically populate your state shared revenue for the forthcoming year. These projections can be printed and/or saved as a pdf document. Throughout the publication you will see links to our website for these new budget tools.

In summary, we think you will find the 2017 Budget Suggestions publication evolving into a quick reference guide that will point you in the right direction to obtain additional budget development information.

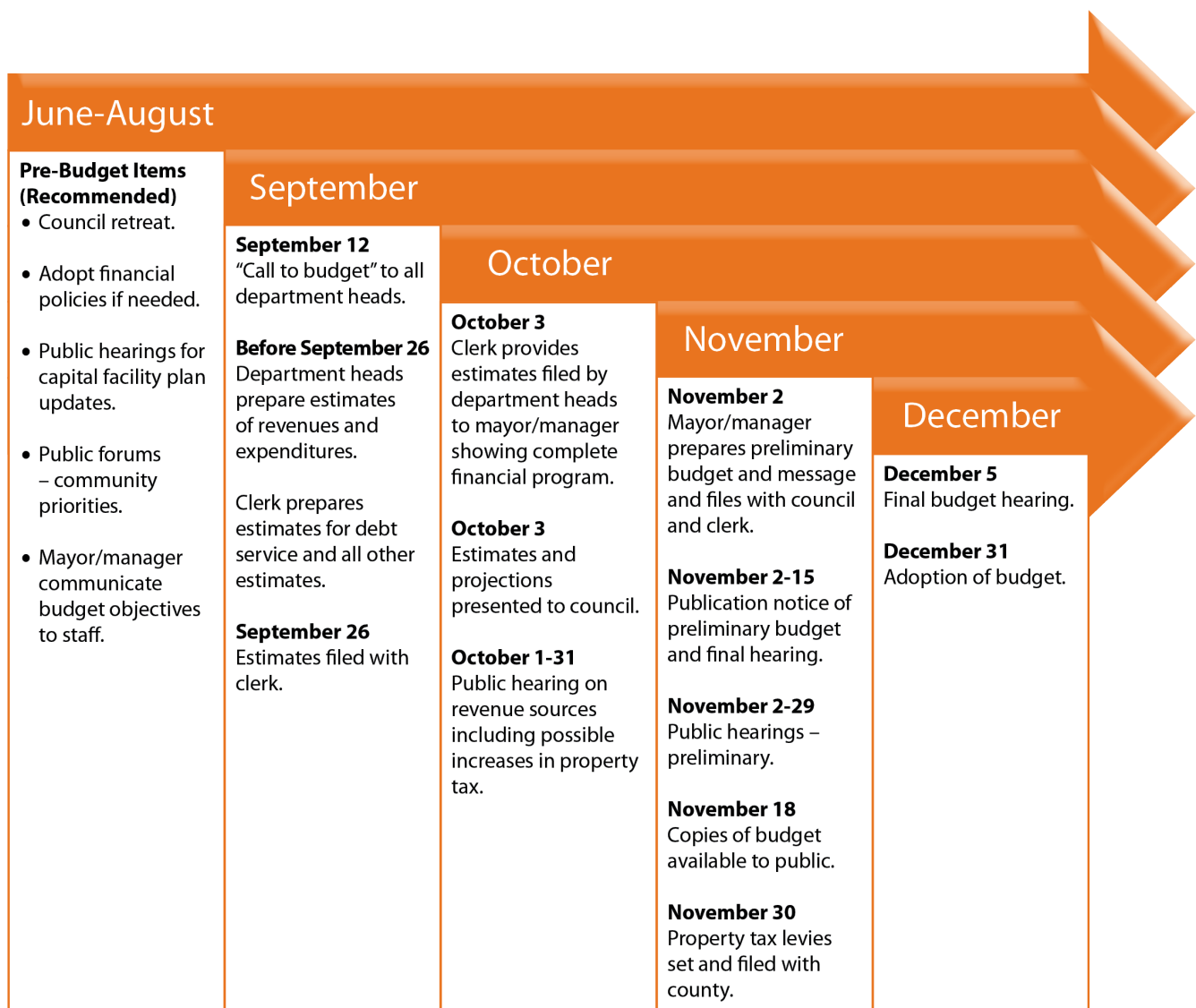
Toni Nelson, our Finance Consultant is the author of much of the material in this publication, however creating Budget Suggestions requires a team effort. Credits go out to Holly Stewart, Desktop Publishing Specialist who continues to bring the document together for you in an easy to download and/or printable pdf doc; and Josh Mahar, Policy and Communications Consultant who brings the information to our website. Collectively, we hope this publication and website expansion of budget development practices and forecasts will assist you in drafting your budget document for 2017 and beyond.

# 2017 Budget Calendar for Cities and Towns

The annual budget process requirements for cities and towns are listed in [chapter 35.33 RCW](#) and for code cities in [chapter 35A.33 RCW](#).

This calendar provides the statutory deadlines for each of the budget preparation steps. Throughout [chapter 35.33 RCW](#) and [35A.33](#) the statutes read “on or before” or “at least \_\_\_ days before”, therefore pursuant to budget law, these budget steps can be taken before the dates listed on the calendar. Pre-budget items have been included as recommendation only and are not part of the budget statutory requirements.

We recommend that each city and town develop a time line that best meets their needs, assures compliance with the statutes, and provides sufficient time to prepare this vital financial plan.



A detailed explanation of the budget preparation requirements, deadlines, and procedural tips are provided on the MRSC webpage: [Budget Preparation Procedures for Cities and Towns](#).

## Biennial Budgets for Cities and Towns

The calendar for the biennial budget is almost identical to that of the annual budget calendar shown with the obvious difference of substituting “biennial” for “year”, and the requirement for a mid-biennial review and modification. [Chapter 35.34 RCW](#) for cities and towns, and [Chapter 35A.34 RCW](#) for code cities are the authorizing statutes. City biennial budget periods are from January 1 of an odd numbered year to December 31 of the next succeeding even-numbered year, which means that the 2017 annual budget calendar provides all of the required dates needed with the exception of the mid-biennial review.

Addition to budget calendar for the biennials review/modification:

Additional Biennial Budget Step	State Law Time Limitations	Actual 2017 Date
The legislative body shall provide for a mid-biennial review and modification by ordinance. CAO shall prepare proposed budget modification and provide publication of notice of public hearings on same. Budget modification shall be by ordinance. <a href="#">RCW 35.34.130</a> and <a href="#">RCW 35A.34.130</a>	No sooner than 8 months after the start of the fiscal biennial period, nor later than the end of the first year of the biennium	September 1, 2017 through December 31, 2017
Copies of the biennial budget document and budget modification to be transmitted to the State Auditor’s Office and to MRSC.		After adoption

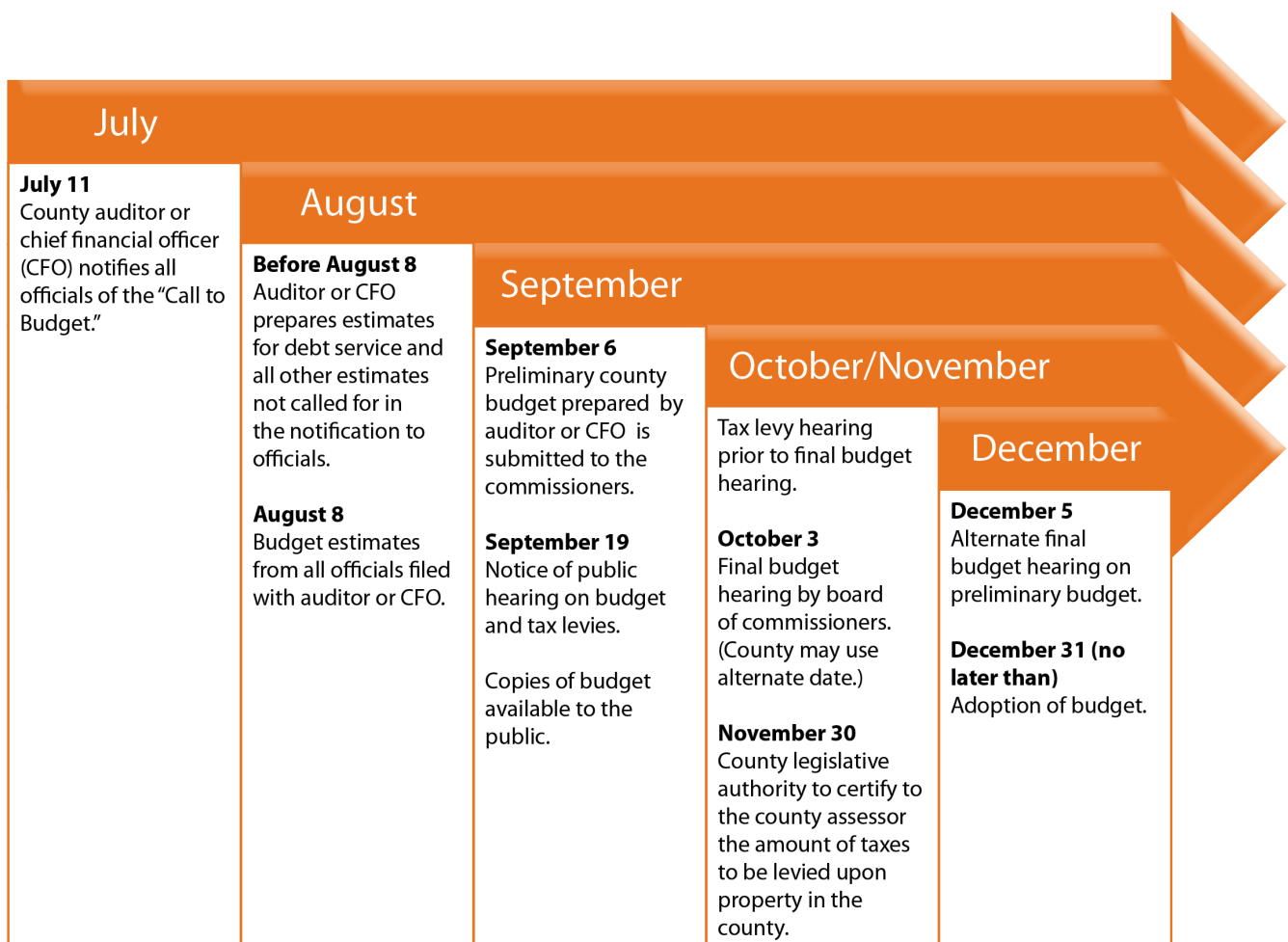
All cities and towns that want to begin budgeting on a biennial basis must pass an ordinance at least six months (June 30) prior to the beginning of the fiscal year so stating their intent ([RCW 35.34.040](#) and [35A.34.040](#)). If you missed the current time frame for the 2017-2018 biennium and want to change the current budget process to a biennial budget, the next biennial budget period will be 2019-2020. The deadline for adopting the required ordinance of intent to change will be **June 30, 2018**.

# 2017 Budget Calendar for Counties

The annual budget process requirements for 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 the budget process to conform to the alternative preliminary budget hearing date of the 1st month in December.

This calendar provides the user with statutory deadlines for each of the budget preparation steps. However, RCW 36.40.010 states “on or before the second Monday in July”, therefore, pursuant to statute this step and certain others could be taken before the dates indicated in the calendar.

We recommend that each county develop a time line that best meets the needs of the county, assures compliance with the statutes, and provides sufficient time to prepare this vital financial plan.



A detailed explanation of the budget requirements, deadlines, and procedural tips are provided on the MRSC webpage: [Budget Preparation Procedures for Counties](#).

## Biennial Budgets for Counties

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 ([RCW 36.40.250](#)) 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 county auditor in August. The [2017 annual budget calendar for counties](#) provides all of the required dates needed with the exception of the mid-biennial review.



# 2016 Legislation That May Affect Your Budget

## Fire Insurance Premium Tax

**Fire Insurance Premium Tax**, 2ESHB 2376, Section 920, pages 305-307. Though this section of the supplemental budget was vetoed by the Governor, he vetoed this with an exception:

“I encourage the affected local governments to provide the information specified in this section and direct the Department of Revenue and the Department of Retirement Systems to review the information submitted.”

For the 44 cities that receive distributions from this tax to assist with their firefighter pension obligations, the Governor’s veto of this section brought at least a temporary reprieve. The affected local governments are encouraged to provide data as to the number of retirees and cost for pensions paid to the Departments of Revenue and Retirement Systems that demonstrate how the authorized 22.5 cent levy is applied to their pension obligations and whether it is adequate. The Association of Washington Cities is working with affected jurisdictions to gather this information.

## Local Business Tax and Licensing Simplification

**Local business tax and licensing simplification**, HB 2959. During the 2016 legislative session, lawmakers passed HB 2959, establishing a task force to evaluate options to continue local business tax and licensing simplification. While the task force is expected to spend much of its time considering the city business and occupation (B&O) tax, the legislation also requires an evaluation of options for all cities to use the state’s Business Licensing Service (BLS). With nearly 230 cities issuing local business licenses and 43 cities imposing a B&O tax, the task force’s recommendations have the potential to impact nearly every city in the state.

The bill establishes a nine member task force of business and city representatives chaired by a representative of the Department of Revenue directed to “partner in developing options for centralized and simplified administration of local business and occupation taxes and business licensing”. The task force will meet throughout the remainder of 2016 with their report anticipated before the 2017 legislative session. For more background on the task force, link to the Association of Washington Cities’ website.

# Demographic and Economic Indicators

There are several factors and indicators that have an impact on the drafting of a budget for local government. Some of these factors have a direct impact and others are more of an indirect impact on the development of the annual and/or biennial budget for local government. Here are some insights and projections on some of the most pertinent indicators.

## Population Forecast

Population estimates are of particular importance to local government as they form the basis for which state shared revenues are distributed.

Through [RCW 43.62.030](#) and [43.62.035](#) the [Office of Financial Management](#) is responsible for determining populations of all cities, towns, and counties of the state. The population estimates are determined each year as of April 1 and certified to the secretary of state on or before July 1. The certified data is distributed to those agencies responsible for making allocations or payments to local government and this data is used for distribution effective January 1 of the following year.



According to the April 1, 2016 population estimates, the state had its largest single-year population growth since 2007, with an overall increase of 122,300 residents. Washington's new total estimated population is now 7,183,700. The Office of Financial Management attributes the gain primarily to migration. Net migration accounted for 71% of the state's population growth, with natural increase (births minus deaths) responsible for the remaining 29%.

## Cities

The official April 1, 2016 population of all incorporated cities and towns, to be used for distributions in 2017, is **4,666,798**. This represents an addition of 102,400 residents, a 2.24% increase from April 1, 2015. Growth is primarily attributed to migration and natural increase, with annexations contributing 16%. 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 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 largest annexation currently filed with the OFM [central annexation tracking system](#) is the City of Spokane, which annexed an area with a population estimate of 857. This annexation was completed after the April 1 cutoff for population estimates so we have added these numbers to the 2016 OFM city population estimates to be used for 2017 distributions. The largest annexation set to occur later this year is the Grand Ridge annexation into the City of Camas. The ordinance for this annexation will be adopted in July and is set to be official by January 1, 2017, the city is currently in the process of census taking and es-

timates the population at 370. The Spokane-Camas annexations along with a few other small annexations will produce an adjusted population figure of **4,668,045** to be used for 2017 distributions.

## *Counties*

The official April 1, 2016 population of the combined unincorporated areas of the state is **2,516,902**. This is an increase of 0.7 percent from 2015. We have used this number, unadjusted, in making the county forecasts for liquor board profits and the liquor excise tax.

## **Economic Factors**

There are several economic factors that, for many, are instinctively incorporated into the budget forecasting process, especially if the forecasting techniques being used are judgmental, and/or historical trends analyses.

Economic conditions may have an impact on revenue projections especially in jurisdictions that are heavily dependent upon retail sales tax. Looking at current and projected economic indicators, such as inflation, employment, population, and prevalence or concentration of a particular industry, are all components of economic modeling in the budget process.

The [MRSC finance topic](#) pages provides a section on [Economic, Population and Tax Data](#) that provides both current and historical data for the [Consumer Price Index](#) (CPI) and the [Implicit Price Deflator](#), as well as [Population and Tax Data](#). The tax data provided is for the two main revenue sources for local governments: retail sales taxes and property taxes.

The following economic indicators are the two most frequently watched by local government in Washington State. We have summarized the data that is currently available on our topic pages for this publication.

## *Consumer Price Index*

The [Consumer Price Index](#) (CPI) is one of the most widely used measures of inflation. It is a measure of the average change in prices paid over time for a fixed “market basket” of goods and services. The CPI reflects the spending patterns of two population groups:

- The CPI for all urban **consumers** (CPI-U) measures the percentage change in prices faced by urban consumers and represents approximately 87% of the population. It is based on the expenditures of almost all residents of urban or metropolitan areas, including urban wage earners and clerical workers.
- The CPI for urban **wage earners and clerical workers** (CPI-W), sometimes referred to as the “blue collar measure,” 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% of the population.

Data for the national indices of the United States are published on a monthly basis by the [Bureau of Labor Statistics](#). The results are available during the third week of the following month. Additionally, there are indices published for several metropolitan areas throughout the nation based upon population. Two of those metropolitan areas are within the Pacific Northwest. The Seattle-Tacoma-Bremerton index (which

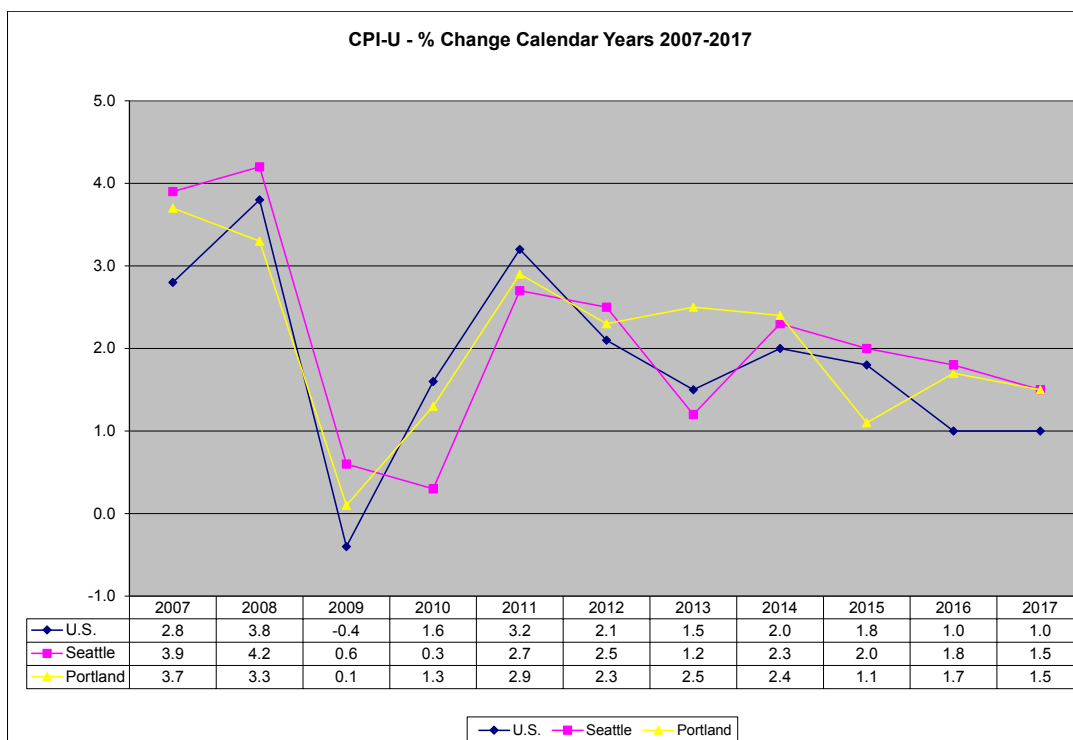
includes Island, Kitsap and Thurston counties) is published every other “even” month and the Portland Salem, OR-WA area is published twice a year. The results for the first half of the year are available during the third week of July. The second half figures are published in mid-January.

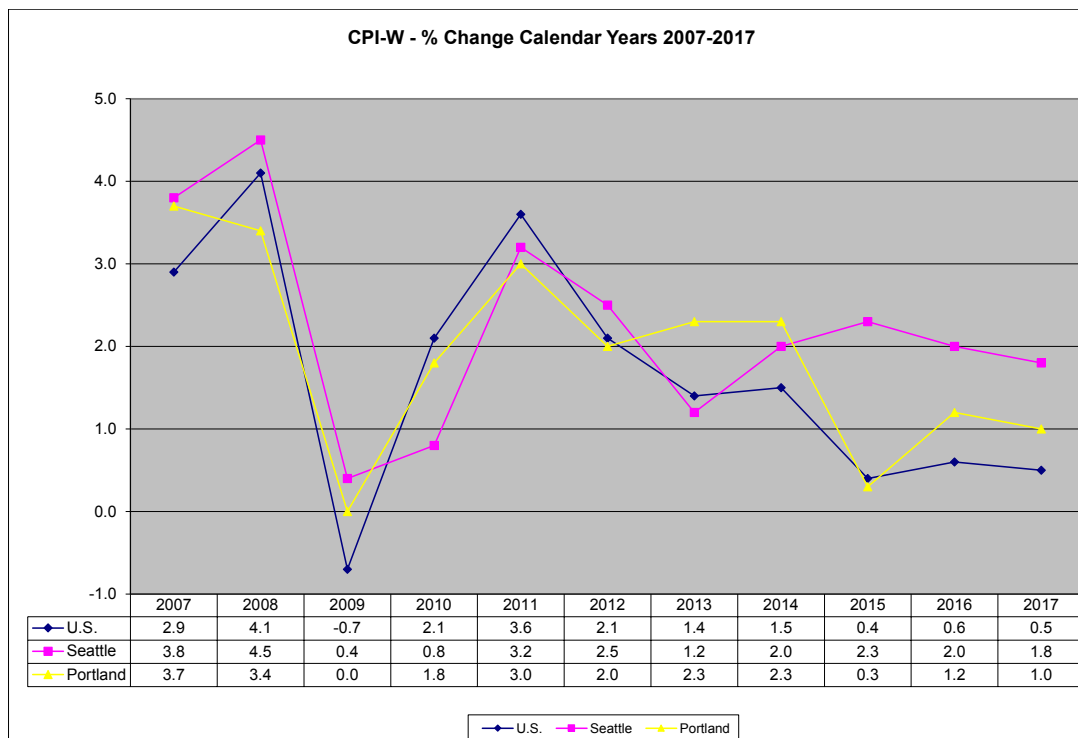
**The Bureau of Labor Statistics recommends the use of one of the national indices for all contracts,** due to the fact that metro indices, like the Seattle Tacoma Bremerton and Portland Salem indices, are published less frequently and are based on a smaller sample making them more volatile and subject to measurement error. None of these indices measure price changes in rural areas. But realizing that towns in rural areas need some indicator to use, we recommend one of the national indices.

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](mailto:BLSinfoSF@BLS.GOV) or (415) 625-2270.

The following graphs provide both a historical and comparative view of the **annual average** increase/decrease of the CPI-U and CPI-W for the national, Seattle, and Portland indices. Additionally we have provided forecasts for national indices for year ending 2016 and 2017, which are 1.0 and 1.0 respectively for the CPI-U and .06 and .05 respectively for the CPI-W. As previously mentioned the BLS does not recommend use of the metro indices due to volatility. The chart projections for the metro indices is for informational purposes only and should not be used.

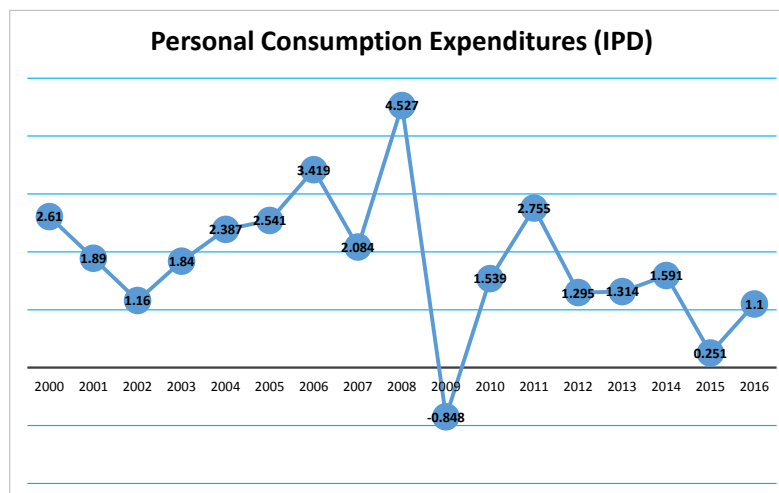
We are unable to get forecasts for the Portland area and therefore have used the 2016 mid-year update as the estimate for year-end 2016 and basis for 2017.





### *Implicit Price Deflator (IPD) for Personal Consumption Expenditures*

The implicit price deflator (IPD) for personal consumption expenditures became an integral part of the process of setting of property tax increases after the passage of Initiative 747 in November 2001. Taxing districts with a population of less than 10,000 can increase their annual levies by 1%, however, taxing districts with a population of 10,000 or more can increase their levies by the lesser of 1% or the percentage increase in the July IPD as published by the Bureau of Economic Analysis (BEA) in the September issue of the Survey of Current Business. (There is an exception, if the legislative body makes a finding of “substantial need.”) Therefore, a change in the IPD of less than 1% is a big deal for taxing districts with a population of 10,000 or more. The chart below demonstrates historical change from year to year.



The 2016 IPD numbers released by the BEA have indicated slow but steady growth. Each month the BEA releases updated numbers that we post on our [Finance Topic](#) page for [Implicit Price Deflator](#) and the current forecast is very close to the 1% mark at 1.010. At the current time we are cautiously optimistic that the IPD to be right at the 1% mark but we will be monitoring closely.

### **BEA Revisions**

Every June, the BEA does an annual revision of the data for the last three years. This means that 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 rate we have been seeing so far this year. It all depends on how much they tweak the data.

We will publish the annual inflation factor in our In Focus section of the MRSC website as soon as we can get the information from the BEA sometime in mid September. Make sure to sign up for our [In Focus: Finance email newsletter](#) so that we can send you that information as soon as it is released.

# Revenue Forecasts

Historically, this chapter has been devoted to state shared revenues that can be forecast on a per capita basis. We provide ratio values that local governments can use to project their portion of various state resources. We will continue to provide these ratio values and associated forecasts. In fact this year, we have added a new [revenue calculator](#) to our website that allows you to simply click on your city, town, or county name and get a projection for your portion of each state shared revenue source. You will have the ability to print this information or download it for use in developing the preliminary budget forecasts.

Because revenue projections are such a critical component of budget development, we are additionally going to speak to those resources that are not based on a per capita calculation but that require you to forecast the resource. It is what we call “core revenues”. The section is brief but provides links to key resources to assist with your forecasting.

Another component of this chapter is an overview of the latest updates or changes in legislation that may impact revenue forecasts along with other issues that we feel are worthy of your consideration. One such issue that has always existed but we feel is important to restate is the conflict between the state and local budget periods. This conflict adds an element of complexity to the forecasting of state shared revenues. The state’s budget is on a biennial budget cycle which has a fiscal period that runs from July 1 to June 30, while local government has a calendar year budget cycle. Therefore legislation can and often does impact the projections made by counties, cities, and towns midway through their budget cycle.

The next legislative session begins in January 2017 and the primary focus of the legislature this year will be the next biennial state budget cycle (July 1, 2017 to June 30, 2019). The following narratives on state shared revenues do not take into consideration potential changes that may come about because of the next biennial state budget. There is certainly some concerns that state shared revenues could be vulnerable and potentially modified as a result of state budget constraints such as the [McCleary decision](#). It may be a worthy topic of discussion as you forecast your revenues for this budget cycle.

## Core Revenues

MRSC cannot forecast the primary revenue sources for local government, however we do have resources to assist you in developing these forecasts. As you begin this critical step of the budget process we recommend reviewing our [property tax](#) topic page, which has been updated and expanded. If your entity is considering a [levy LID lift](#) you can see how other jurisdictions have fared in obtaining voter approval through our [local ballot measure database](#). We have also expanded the budget section of our website, which provides a [basic budget overview](#), budget preparation procedures for [cities and towns](#) and [counties](#), and of course the [budget calendar](#) which can be downloaded directly onto your Outlook calendar or as a PDF document.

## Property Taxes

Property taxes are, for most entities, the single largest source of revenue and the forecasting of this resource can be a bit tricky. Your local county assessor plays a vital role in certifying the assessment that will be used to set your levies for the forthcoming year ([RCW 84.48.130](#)). The Department of Revenue (DOR) has a [property tax calendar](#) for 2016 that will assist with your understanding of how and when



the assessments are certified and when you may expect to receive this information which is typically during the 2nd half of September each year. This information along with the release of the implicit price deflator, which is also in September, will provide you with most of the information that you will need to begin developing this property tax levy forecast. The DOR has some excellent information on [how the 1% property tax levy limit works](#) and the county assessor's office will additionally provide you with a levy limit worksheet specific to your jurisdiction that will form the basis of your property tax levy projections.

### ***Retail Sales Tax***

The retail sales tax is considered a core revenue and often represents the second largest revenue source in the general fund budget. Many entities use historical data as their basis for projecting this revenue, while larger jurisdictions will utilize a more sophisticated forecasting model. Whatever your forecast method, it's important to document your methodology and discuss it with the budget team.

### ***B&O and/or Utility Taxes***

Specific to cities and towns business and occupation (B&O) and utility taxes have become core resources for many jurisdictions. When forecasting this source of revenue it is important to know whether utilities are increasing their rates or whether local businesses are expanding or contracting. Just like retail sales tax, it's important to document your forecasting methodology and discuss the results with the budget team.

## **State Shared Revenues**

### ***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.*

The Department of Transportation (DOT) forecasts are released each quarter and the key conclusion from the June 2016 forecast was that transportation revenues for the current biennium (2015-17) are expected to exceed the prior 2013-15 biennium by 24%. The forecast includes the revenue from the 2015 transportation revenue package, 2ESSB 5987. A significant component of the transportation package was an increase in fuel taxes which contributes to the upward forecast for transportation revenues. Combined motor vehicle fuel taxes comprise 56.5% of all revenues received by the DOT. The June 2016 forecast projects an increase over the February forecast of 1.87% for 2017, 1.4% in 2018, and 0.5% in 2019.

Gasoline and diesel fuel prices, along with Washington personal income, are the primary variables affecting fuel consumption. Fuel prices have continued to be below projections, while employment is higher, contributing to an increase in gallons sold and fuel tax revenue received. These trends are projected to continue for the next biennium.

Counties, cities, and towns are now receiving the direct transfers of multi-modal and fuel tax from [2ESSB 5987](#). The legislation required that these distributions be phased in over the 2015-17 and 2017-19 biennium. The result is an annual distribution to counties, cities, and towns, starting with the state fiscal year 2018 (7/1/17-6/30-18), of \$12,556,000. These direct transfers are split equally between cities and counties with the distribution to cities based on population and the distribution to counties made ac-



cording to allocation factors developed by the county road administration board (CRAB). Distributions are made on the last day of the month in September, December, March, and June.

**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.*

### Cities

The city forecasts for motor vehicle fuel tax dollars and per capita amounts are provided in the revenue forecast tables. These estimates utilize the forecasts adopted by the Transportation Revenue Forecast Council as of June 2016. We have also incorporated the direct distributions provided in ESSB 5987, breaking out the distributions between the multi-modal revenues and increased fuel tax as provided by the bill.

### Counties

The 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 2017 will be released after the board meets at the end of July. Counties are notified directly by CRAB.

Under ESSB 5987 counties will receive 50% of the direct allocation funds, however the distribution method for counties must adhere to RCW 46.68.120(4), which means that the funds are to be distributed under the same formula as the current motor vehicle fuel tax. CRAB will provide the counties with those distributions.

### Liquor Revenues

The only thing constant with liquor revenues is change, but this year the change was in the positive direction for counties, cities, and towns. Here is a bit of history to help put it all in perspective.

- Initiative 1183, passed in November 2011, privatized the distribution and retail sale of liquor, effective June 1, 2012. The result of this initiative for local governments was that instead of a calculation based on the profits generated from state-run liquor sales, the revenue distribution for liquor profits is now based on the collection of license fees paid by retailers and distributors.
- 2012 legislation resulted in a permanent diversion of \$10 million per year (\$2.5 million per quarter) of city and county money from the liquor excise tax fund to the state general fund. This is codified in RCW 82.08.170(3). The reduction in liquor excise tax distributions is applied to cities and counties in the same proportion as the initial tax distribution; 80% of the liquor excise tax is distributed to cities and 20% to counties. (A small portion goes to border cities and counties, but we have left out these amounts to simplify the calculations.)
- The 2013-2015 state budget (3ESSB 5034, Section 1003) reduced the share of liquor taxes collected and remitted to cities and counties from 35% to 22.5%.
- The 2015-2017 state budget (ESSB 6052) returned the distribution from the liquor excise tax to 35% of revenues collected.

## 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 (ERFC).*

The formula works as follows:

1. 35% of liquor excise tax collected is deposited in the “liquor excise tax fund” for distribution to cities, towns, and counties (RCW 82.08.160(1)).
2. \$2.5 million each quarter (\$10 million a year) shall be deducted from the liquor excise tax fund and remitted to the state general fund (RCW 82.08.170(3)).

The return of liquor excise tax at pre-2013 levels began in calendar year 2016 for cities, towns, and counties. This time last year the ERFC estimated the collections to be remitted to the liquor excise tax fund to be \$36,804,462, and after deductions the distributions were estimated for cities at \$20,254,249 and for counties at \$4,485,424. The June 2016 revised forecasts by the ERFC project an increase in liquor excise tax collections, resulting in increased distributions. The revised forecast for 2016 distributions to cities is \$21,233,837 and to counties is \$4,730,321.

For calendar year 2017 the ERFC estimates liquor excise tax revenues that are to be deposited into the liquor excise tax fund at \$37,474,207. After deductions the distributions are estimated to be:

- Cities \$21,798,888
- Counties \$4,871,584

**Reminder:** *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. When comparing distributions by the state treasurer's office to the ERFC forecasts there is usually a variation of plus or minus 2%.*

The estimates and per capita ratio values are shown in the revenue forecast tables at the end of this chapter.

## 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 jurisdictions. Codified as RCW 66.24.065, it 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.

The “comparable periods prior to December 8, 2011” were determined by the Office of Financial Management (OFM) to be December 2010, March 2011, July 2011, and September 2011. 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. 0.3%, which equals \$148,314, is distributed to border cities and counties. The remaining \$49,289,686 is distributed as follows:

- Cities receive 80% of the \$49,289,686. This equals \$39,431,748 annually, which is \$9,857,937 per quarter.
- Counties receive 20% of the \$49,289,686. This equals \$9,857,936 annually, which is \$2,464,484 per quarter.

We recommend that cities and counties split their distributions so that they can account separately for the portion that must be spent to enhance public safety programs. To calculate this portion of the quarterly remittance of liquor profits, multiply your distribution by 0.2023 or 20.23%. Per the statute, this portion must be used for public safety purposes.

It's worth noting that these distribution figures, in the amount of \$39,431,748 for cities and \$9,857,936 for counties, will continue to be the distributions each year unless the legislature amends the statute. The initiative did not include any measures to account for inflation. We have incorporated a per capita ratio value in the rate tables at the end of this chapter and the ratio will vary slightly each year due to changes in population prepared by OFM.

***Reminder:*** Don't forget you still have to devote at least 2% of your liquor profits and liquor excise tax distributions to an approved alcohol or drug addiction program under RCW 70.96A.087 in order to be eligible to receive these distributions.

## ***Criminal Justice Revenues***

### **Cities**

The repeal of the motor vehicle excise tax in 1999 resulted in the legislature adding new revenue sources for criminal justice for cities. The legislation, codified in RCW 82.14.320 and 82.14.330, requires a transfer to be made from the state general fund to city accounts. These transfers were appropriated originally at \$4.6 million, to be increased each July by “the fiscal growth factor,” set forth in RCW 43.135.025, which is the average annual growth in state personal income for the prior ten fiscal years. By 2016, the distributions had grown to total \$8.6 million each for these two separate criminal justice resources.

Criminal justice revenues created by 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.

RCW 82.14.330 has four different distributions. RCW 82.14.330(1)(a)(ii) distributes 16% 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)(a)(ii) allocates another 54% to innovative law enforcement strategies, programs to help at-risk children or child abuse victim response programs, and programs designed to reduce the level of domestic violence or to provide counseling for domestic violence victims. The funds for these areas are distributed by the Office of the State Treasurer on a strictly per capita basis. While there is a requirement that these funds be spent in these specific areas, there is no requirement of how much must be spent in each area. All of the distribution could be spent in one area if the city wishes. 10% of the revenues go to cities that contract for law enforcement services, and the remaining 20% is distributed based on crime rates using the same methodology as the funds distributed under RCW 82.14.320.

In the revenue forecast tables that follow, we identify the 16% distribution as “Criminal Justice – Population” and the 54% distribution is labeled “Criminal Justice Special Programs,” which is how the state treasurer’s office labels these distributions.

## Counties

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 by the state in fiscal year 2000, was \$23.2 million and has grown to \$43.4 million in 2016. It is increased every July by “the fiscal growth factor,” which is the average annual 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.

## Marijuana Excise Tax

HB 2136, which amended the state’s marijuana regulatory and taxation system, provides for revenue sharing with cities and counties but the formula is a bit complicated. Beginning in fiscal year 2018, if marijuana excise tax collections deposited into the general fund in the prior fiscal year (2017) exceed \$25 million, then the legislature must appropriate an amount equal to 30% of such deposits to the treasurer for distribution to cities, towns, and counties.

The June 2016 Economic Revenue and Forecast Council (ERFC) projections for fiscal year 2017 (Table 3.18) estimates deposits to the state general fund will exceed \$25 million and have forecast this number to be \$82,739,000 for FY 2017 of which 30%, or \$24,821,700, would be distributed to cities, towns, and counties. However the legislation goes on to cap excise tax distributions for cities and counties at \$15 million in fiscal year 2018 and 2019 and then at \$20 million thereafter.

Here is how the distribution (with caps) is provided for in the legislation:

- 30% (an estimated \$4,500,000) to cities, towns, and counties where licensed marijuana retailers are physically located and in proportional share of the total revenues generated. We are unable to forecast this portion of the distribution.
- 70% (an estimated \$10,500,000) to cities, towns, and counties on a per capita basis with 60% going to counties based on each county’s total proportional population. It should be noted that jurisdictions that have prohibited the sale of marijuana will not receive a distribution.

**Estimated Distributions**  
**\$4,200,000 – Cities**  
**\$6,300,000 – Counties**

Cities and counties will begin to receive their first distributions of the marijuana excise tax in 2017. The state fiscal year for 2018 begins July 1, 2017 which results in distributions at the end of September and December. According to the revenue projections of the ERFC they will be capped each year.

A ratio value has been forecast for both 2017 and 2018 but we would like to remind everyone that these ratios (per capita rates) are based solely on the information provided by cities and counties. If a city or county repeals a prohibition or removes a moratorium, this would have an impact on the per capita rate that has been calculated.

### ***City-County Assistance Distributions (RCW 82.45.060)***

**Editor's Note:** *The real estate excise tax revenues and forecasts are the work of Eric Swanson of the Washington State Economic and Revenue Forecast Council (ERFC).*

RCW 82.45.060 imposes an excise tax of 1.028% on each sale of real property within Washington State. A portion of this tax (1.6%) must be deposited in the city-county assistance account that is created in RCW 43.08.290 for the purpose of providing assistance for certain cities and counties that meet the qualifications of the statute (see the formulas in the tables below). These funds were originally intended to mitigate the loss of the motor vehicle excise tax (MVET) that was distributed to local governments as a means of equalization of sales tax.

### **Cities**

The formula used to allocate city funding is based on a sales and property tax equalization formula and the 2005 MVET backfill levels.

<b>Cities</b>		
	<b>Distributions Formula</b>	<b>Exceptions</b>
<b>Cities under 5,000 population</b>	Greater of – <ul style="list-style-type: none"> <li>• 55 percent sales tax equalization on first 0.5 percent local sales tax;</li> <li>• 55 percent property tax equalization based on per capita assessed values per \$1,000 assessed value; or</li> <li>• 2005 MVET backfill.</li> </ul>	Cities with twice the state-wide per capita assessed value not eligible for funding.
<b>Cities over 5,000 population</b>	Greater of – <ul style="list-style-type: none"> <li>• 50 percent sales tax equalization on first 0.5 percent local sales tax;</li> <li>• 55 percent property tax equalization based on per capita assessed values per \$1,000 assessed value; or</li> <li>• 2005 MVET backfill (calendar years 2006 and 2007 only).</li> </ul>	Cities with assessed value per capita above the state-wide average not eligible for funding.

Distributions for all cities are capped at \$100,000, to be increased each year by the increase in the July implicit price deflator (IPD) for personal consumption expenditures. The **2016 cap is \$122,357**. Cities that incorporated after August 1, 2005 are not eligible for funding.

If there are not enough revenues to fund the distributions as outlined 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).

Counties		
	Distributions Formula	Exceptions
<b>Counties with unincorporated populations over 100,000 (the first half-cent of the sales and use tax and streamlined sales tax mitigation funds received)</b>	Greater of – <ul style="list-style-type: none"> <li>\$250,000 (to be increased each year by the increase in the July Implicit Price Deflator (IPD) for personal consumption expenditures, which produces an amount of <b>\$294,809</b> in <b>2016</b>); or</li> <li>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.</li> </ul>	None
<b>Counties with unincorporated populations under 100,000 (the first half-cent of the sales and use tax and streamlined sales tax mitigation funds received)</b>	Greater of – <ul style="list-style-type: none"> <li>\$250,000 (to be increased each year by the increase in the July IPD, which produces an amount of <b>\$294,809</b> in <b>2016</b>); or</li> <li>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.</li> </ul>	None
<b>Counties with unincorporated populations under 15,000</b>	Greater of – <ul style="list-style-type: none"> <li>Distribution for counties with unincorporated populations under 100,000 (see above); or</li> <li>The amount the county received in “backfill” for FY 2005 under section 716, Ch. 276, Laws of 2004 (amended state budget).</li> </ul>	None

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).



**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 required to be distributed quarterly on January 1, April 1, July 1, and October 1. In order for these distribution dates to be met, the transfers are made on the last day of the previous month in conjunction with the regular remittance of revenues from the State Treasurer's Office (OST) to local government. As a result the January 1 remittance is received on December 31 which is part of the current budget cycle for cities, towns, and counties instead of being received in the next budget period. 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 2017 in November or December of this year (2016), you will know the amount for which you are certified for 2017 (see the discussion below on how to make your forecast), but the first payment from that certification will arrive this December and will become part of the current year's (2016) revenues. The amount you forecast for 2017 will depend on the October 1, 2016 release of the 2017 re-certification, less the January (December 31) plus your "guesstimate" of what you will receive next December on December 31, 2017. The following table shows the various payments and their timing.

City-County Assistant Distributions				
		Statutory Date for Distribution	Actual Payment Date	Certification Date
2016 Budget	1st Quarter	April 1, 2016	March 31, 2016	October 1, 2015
	2nd Quarter	July 1, 2016	June 30, 2016	October 1, 2015
	3rd Quarter	October 1, 2016	September 30, 2016	October 1, 2015
	4th Quarter	January 1, 2017	December 31, 2016	October 1, 2016
2017 Budget	1st Quarter	April 1, 2017	March 31, 2017	October 1, 2016
	2nd Quarter	July 1, 2017	June 30, 2017	October 1, 2016
	3rd Quarter	October 1, 2017	September 30, 2017	October 1, 2016
	4th Quarter	January 1, 2018	December 31, 2017	October 1, 2017

## Forecasts

**Historical.** The city-county assistance fund receives its revenues from the sales of real property, therefore when the real estate market is active, funds are frequently sufficient to distribute. However, when there is a downturn in the economy, revenues decrease as was the case in the 2008 recession. During that time cities and counties received a decreased distribution for several years after. Because of the weighted formula, there was enough to fully fund the counties, but cities received only a proportion of their certified amounts.

In the 2009-2011 biennium the state operating budget provided a transfer from the Public Works Assistance Account of \$2.5 million, which allowed counties to be fully funded while cities received 67% of their certified amounts. The next state biennium (2011-2013) budget eliminated the public works transfer which resulted in further reduction of the distribution to both cities and counties.

As with other state shared revenues this resource is impacted by downturns in the state economy and the actions of the state legislature. Real estate sales have been progressively increasing throughout the state which will likely result in increased distributions, at least until the next downturn in the economy.

**2016 Update.** The total certification amount for cities for 2016 was \$8.6 million. For counties, the amount was \$5.68 million. Of this amount, both cities and counties received their January distribution in calendar year 2015 (see distribution table above) and you have now received the April and July distributions. According to the June 2016 ERFC forecast of real estate excise tax receipts, cities and counties are currently expected to receive \$4.11 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 2016 to \$11.36 million. There will be one more payment – the January 2017 distribution, which cities and counties will receive at the end of this coming December.

To update your forecast for 2016, you can go to the Department of Revenue (DOR) [City-County Assistance Page](#) and click on “2016 Recertification and Quarterly Distribution Estimates.” These spreadsheets show the amounts for which each city and county were certified in 2016. Pay no attention to the last column titled “Total.” If you wish to revise your 2016 revenue estimates remember that the revenues for the “January 2016 Distribution” were received in FY 2015.

Preliminary estimates will be available sometime in September. It will be posted on the same DOR website, and will be titled “2017 City and County Distributions”.

Right now, the folks at ERFC are estimating that the January 2017 distribution (December 2016 payment) will be \$1.64 million for cities and the same amount for counties. That would make the total for the four payments for the 2016 budget year equal \$14.64 million. The DOR is forecasting that cities will get approximately 86% (\$6.30 million of \$7.32 million) of their certification amounts for 2016 and counties will receive 100% of their certification plus an additional distribution based on the formula in [RCW 82.14.030\(2\)](#).

**2017 Forecast.** When the preliminary certification for 2017 is posted on the DOR website, sometime in the latter part of September of this year, 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 “2017 City and County Distributions.” We estimate that cities should get fairly close to their cer-



tification levels for the first time since 2007 and counties are estimated to 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 cities and counties is \$6.57 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 by \$6.57 million to get your estimated dollar amount for 2017. This methodology assumes that your share of the last payment in 2016 (which will come from the October 1, 2016 certification for 2017) 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 to make your budget estimate for 2017, then take your entity's percentage share of the 2016 certification and multiply it by the estimated pot of city or county revenue for 2017, \$6.57 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% equalization amount). You were certified for a distribution this year, 2016, but if your per capita sales tax increases beyond the 55% equalization amount of \$51.97, you might not qualify for assistance in 2017.

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 IPD for personal consumption expenditures is not published until the third week of September. Therefore the "preliminary" certification is not available on September 1.

## ***Fire Insurance Premium Tax***

### **2016 Distribution Amounts**

RCW 41.16.050 requires each municipality having a regularly organized fulltime, paid, fire department employing firefighters to establish a firefighters' pension fund. This fund is to consist of all bequests, gifts, or donations given or paid to the municipality for the firefighters' pension fund; a proportional share of the state tax on fire insurance premiums; property taxes collected under the provisions of RCW 41.16.060; interest on the investments of the fund; and any contributions made by firefighters themselves.

The state collects a 2% tax on the premiums of all insurance policies written. Of the tax collected on fire policies and the fire component of homeowner's and commercial multi-peril policies, 25% is distributed to cities and fire districts that have firemen's pension funds.

The moneys received from the tax on fire insurance premiums under RCW 41.16.050 are distributed in the proportion that the total number of paid firefighters in the individual jurisdictions bear to the total number of paid firefighters in the state. This calculation is known as the "ratio value" and each year, on or before January 15, cities, towns, and fire districts must certify to the State Treasurer their number of paid firefighters and the Office of Insurance Commissioner certifies the fire insurance premiums collected by March 31.

The ratio value for 2016 is \$1,020.92. This is 4.6% higher than the \$976.06 we forecasted last year. In large part this is due to the fact that the fire insurance premiums collected were higher than estimated. The following table reflects the distributions made to each city or fire district on 5/31/16.

<b>Distribution of Fire Insurance Premium Tax (RCW 41.16.050)</b> <b>Ratio Value \$1,020.92</b> <b>May 2016</b>		
<b>City/District</b>	<b>Number of Paid Firefighters as of January 15, 2016</b>	<b>Total Amount Distributed</b>
Aberdeen	35	\$35,732.29
Anacortes	21	21,439.37
Auburn	75	76,569.19
Bellevue	210	214,393.72
Bellingham	114	116,385.16
Bothell	55	56,150.74
Bremerton	56	57,171.66
Camas	49	50,025.20
Centralia	21	21,439.37
Chehalis	13	13,271.99
Edmonds	48	49,004.28
Ellensburg	20	20,418.45
Everett	163	166,410.36
Hoquiam	22	22,460.29
Kelso	12	12,251.07
Kennewick	78	79,631.95
Kent	223	227,665.71
Kirkland	96	98,008.56
Longview	48	49,004.28
Lynnwood	54	55,129.81
Mercer Island	29	29,606.75
Moses Lake	28	28,585.83
Mount Vernon	35	35,732.29
Olympia	90	91,883.02
Pasco	57	58,192.58
Port Angeles	22	22,460.29
Pullman	34	34,711.36
Puyallup	57	58,192.58
Raymond	11	11,230.15
Redmond	151	154,159.29
Renton	145	148,033.76

**Distribution of Fire Insurance Premium Tax (RCW 41.16.050)**  
**Ratio Value \$1,020.92**  
**May 2016**

City/District	Number of Paid Firefighters as of January 15, 2016	Total Amount Distributed
Richland	61	62,276.27
Seattle	984	1,004,587.71
Shelton	6	6,125.53
Spokane	276	281,774.60
Sumner	24	24,502.14
Sunnyside	15	15,313.84
Tacoma	372	379,783.16
Toppenish	6	6,125.53
Tukwila	65	66,359.96
Vancouver	179	182,745.12
Walla Walla	46	46,962.43
Wenatchee	23	23,481.22
Yakima	90	91,883.02
King County Fire District #2	44	44,920.59
Spokane Fire District #1	166	169,473.13
<b>Total</b>	<b>4,429</b>	<b>\$4,521.665.60</b>

Note: Due to rounding differences, the total distribution amount may differ slightly from the ratio value multiplied by the number of firefighters.

## 2017 Projection

Based on the 2016 legislative session, I would encourage local governments to consider the possibility of losing all or a substantial portion of this revenue source in 2017. The 2016 legislative session produced a supplemental budget that would have reduced or cut this distribution to local government. The governor subsequently vetoed this section of [2ESHB 2376](#) but with a directive that we feel is important to note:

*“This section limits the distribution of fire insurance premium tax to local governments and requires reports and audits of information about local governments’ firefighters pension funds....*

*“I encourage the affected local governments to provide the information specified in this section and direct the Department of Revenue and the Department of Retirement Systems to review the information submitted.”*

We have provided additional information and discussion on 2ESHB 2376, Section 920 in the legislative update chapter of this publication for your review and consideration.

That said, if this distribution continues unchanged, we have developed a ratio value for 2017 based upon the assumption that premiums for fire policies and the fire insurance component of homeowner’s and

commercial multi-peril policies will continue to increase; and that wildfires in central and eastern Washington will continue are a part of nature's way of managing the environment.

**Estimated Ratio Value for 2017 of \$1,034.88**

We want to remind our readers that these forecasts are completely dependent on fire loss experience and insurance premiums and we really have no way to forecast either. Even though we know that premiums have historically increased due to increased housing, population, and other economic factors, the estimates for fire losses due to natural disasters such as wildfires has made the projection of these ratio values a challenge.

## State Shared Revenue Forecast Tables for Cities

Summary of Local Share of State-Shared Revenues for Cities and Towns Total Dollar Amounts – 2014 to 2017				
	2014	2015	2016 Revised	2017 Forecast
Gas tax	\$91,452,912	\$93,461,035	\$95,737,763	\$97,279,173
Multi-modal distribution			4,687,500	4,910,750
Increased gas tax ESSB 5987		1,367,250	2,734,500	5,859,500
Liquor profits	39,431,747	39,431,748	39,431,748	39,431,748
Liquor tax	2,938,712	12,252,803	21,233,837	21,798,888
Marijuana distribution				2,100,000
Criminal justice (special programs)	3,926,808	4,228,233	4,651,287	4,852,222
Criminal justice (population-based)	1,163,499	1,252,810	1,378,159	1,437,696
<b>Total</b>	<b>\$138,913,678</b>	<b>\$151,993,879</b>	<b>\$169,854,794</b>	<b>\$177,669,977</b>

Per Capita Amounts for Cities and Towns 2011 to 2017							
	2011	2012	2013	2014	2015	2016 Rev.	2017 Est.
Gas tax	\$20.82	\$20.38	\$20.25	\$20.63	\$20.78	\$20.98	\$20.84
Multi-modal distribution						1.03	1.05
Increased gas tax ESSB 5987					0.30	0.60	0.92
Liquor profits	7.93	6.93	9.96	8.89	8.57	8.47	8.45
Liquor tax	4.91	4.86	3.68	.66	2.72	4.55	4.67
Marijuana distribution							0.58
Criminal justice (special programs)	0.84	0.83	0.85	0.89	0.95	1.02	1.04
Criminal justice (population-based)	0.25	0.25	0.25	0.26	0.28	0.30	0.31
<b>Total</b>	<b>\$34.75</b>	<b>\$33.25</b>	<b>\$34.99</b>	<b>\$31.33</b>	<b>\$33.60</b>	<b>\$36.95</b>	<b>\$37.86</b>

Click here to see the [State Shared Revenue Estimator](#) tool for an electronic forecast of your jurisdiction.

## State Shared Revenue Forecast Tables for Counties

### Summary of Local Share of State-Shared Revenues for Counties Total Dollar Amounts – 2013 to 2017

	2013	2014	2015	2016 Revised	2017 Estimate
Liquor profits	\$9,857,936	\$9,857,936	\$9,857,936	\$9,857,936	\$9,857,936
Liquor excise tax	315,000	1,530,565	2,543,670	4,730,321	4,871,584
Marijuana excise tax					3,150,000
<b>Total</b>	\$10,172,936	\$11,388,501	\$12,401,606	\$14,588,257	\$14,729,520

### Per Capita Amount for Counties 2011 to 2017

	2011	2012	2013	2014	2015	2016 Rev.	2017 Est.
Profits of liquor board	\$3.30	\$4.59	\$4.04	\$4.02	\$3.98	\$3.95	\$3.92
Liquor excise tax	1.94	1.53	0.01	1.23	1.02	1.89	1.94
Marijuana excise tax							1.81
<b>Total</b>	\$5.24	\$6.12	\$4.05	\$5.25	\$5.00	\$5.84	\$5.86

Click here to see the [State Shared Revenue Estimator](#) tool for an electronic forecast of your jurisdiction.

# What's Ahead for Cities and Counties in 2018 (and Beyond)?

Each year, we report on possible incorporations and annexations that might result in significant changes in state shared revenues for the year after next. As of July 1, 2016, the Office of Financial Management's (OFM) Central Annexation Tracking System did not reflect any annexations that have not already been considered in our forecasts and we have not heard of any future annexations that are in the process of filing.

The only other looming issue is what the Legislature will do during the 2017 session. As we have already mentioned in the revenue forecast chapter, the McCleary decision regarding education will dramatically impact what the Legislature does this next session. And what the Legislature does always impacts cities and counties.

Below you will find tables that show the forecasts of 2018 per capita revenues for your consideration. For those of you who adopt biennial budgets or those entities developing some long term budget strategies, we hope that you find these projections helpful.

City Per Capita State-Shared Revenue Estimates – 2018	
Gas tax	\$20.86
Multi-modal distribution	1.41
Increased gas tax ESSB 5987	1.24
Liquor board profits	8.33
Liquor excise tax	4.82
Marijuana excise tax	1.15
Criminal justice (special programs)	1.06
Criminal justice (population-based)	0.32
<b>Total</b>	<b>\$39.19</b>

County Per Capita State-Shared Revenue Estimates – 2018	
Liquor board profits	\$3.89
Liquor excise tax	2.02
Marijuana excise tax	3.63
<b>Total</b>	<b>\$9.54</b>

# Initiatives

## Vehicle License Fee and Tolling Initiatives

Initiative 1421 has failed to qualify for the ballot, and it appears its supporters will try to achieve a similar result through the legislature during the next legislative session.

I-1421 was intended to eliminate all vehicle license fees (aka “car tabs”) above \$30. Had it made the ballot and passed, the initiative would have repealed the fees which support 52 Transportation Benefit Districts (TBDs) across Washington.

The new initiative, **I-869** or “**We Love Our Cars**”, would roll back any increase in the vehicle excise passed as part of Sound Transit 3 and end tolling on highways 405 and 167. Supporters have until the end of this year to gather about 246,000 signatures. The measure would then go to the state legislature and, if not adopted there, on to the 2017 ballot. [Text of I-869](#).

## Initiative 1433: Statewide Minimum Wage and Sick Leave

I-1433 has qualified for the November 2016 ballot. If enacted, it would increase the state’s hourly minimum wage to \$11 for 2017, \$11.50 for 2018, \$12.00 for 2019, and \$13.50 for 2020. It would also require employers to provide paid sick leave starting in 2018. [Text of I-1433](#).



# Strategic Fiscal Management

By Stan Finkelstein, Chair, Washington State Public Works Board

*(Editor's Note: This article was published a couple of years ago in Budget Suggestions and the insight of this article is every bit as relevant now, as it was then. Strategically thinking about the budget is as a vital component of local government's fiscal wellbeing. Because of the significance of this advice we thought it should become a part of our annual publication. After all this is "**Budget Suggestions**", Toni Nelson, Public Financial Consultant, MRSC and Editor of Budget Suggestions.)*

During the past five years, many counties and cities have struggled with shrinking resources, rising health care and energy costs and a citizenry clamoring for their governments to sustain and enhance services. The question often arises as to whether local officials could have initiated strategies prior to the start of the "great recession" that would have enabled them to better maintain revenues and expenditures and thereby the level and array of services. While no strategy is foolproof, especially given the inability to predict the magnitude and duration of economic downturns, the following "do's" and don'ts" can help local officials temper the impact of those downturns. Key to any effective strategy is the willingness of local officials to avoid the intoxication of unsustainable revenue growth during periods of economic growth in order to set aside resources to meet needs during the down slope of the economic cycle.

## Wise Fiscal Management: The "Do's"

While not an inexhaustible list, the following DO's are designed to provide guidance to local officials regarding how best to discharge their fiscal stewardship in a manner designed to maintain services during an economic cycle.

1. *Understand the budget:* know the underlying assumptions regarding the key revenue sources; the factors that impact the revenue forecasts and the impacts of economic changes on those revenues. Also understand the expenditures; factors that may drive expenditures (e.g. crime rates and jail costs) and external factors that could impact expenditures, such as key cost drivers (e.g. inflation) legislative actions and court decisions.
2. *Budget strategically:* recognize that the budget is based on a series of assumptions and forecasts normally agreed to 18 months prior to the conclusion of the year for which the budget is adopted. Revenue forecasts should be realistic, yet conservative. Anticipated expenditures should be budgeted on a "worst possible case", yet not excessive. The budget should identify mandatory and discretionary services and be designed to signal where reductions should occur if mid-year adjustments are necessary.
3. *Monitor the budget throughout the year:* elected officials must be continually apprised of trends in revenues and spending and apprised as to when mid-year adjustments are required. In larger counties and cities a budget committee should be formed to work with fiscal staff to gain a comprehensive understanding of budget trends as they evolve. The entire governing authority should be provided with monthly budget reports by the jurisdictions chief administrative or fiscal officer.
4. *Manage personnel costs:* traditionally, personnel costs account for upwards of 75% of total county or city expenditures. Jurisdictions should budget for accrued sick and vacation leave buyouts upon separation of employees and set aside reserves to accommodate those expenditures. Additionally, due

to separations and delays in recruitment and filling of vacancies it may be appropriate to budget for a given vacancy rate below the fully staffed level.

5. *Recurring capital expenditures should be integrated into the annual budget*: oftentimes when revenues are shrinking local officials tend to reduce capital maintenance and ongoing replacement expenditures in order to maintain services. The impact of that strategy is to ultimately result in increased deterioration of the jurisdiction's capital stock and greater capital costs. Vehicle and computer replacement, roadway resurfacing, and minor facility improvements are all ongoing expenditures and should be treated with co-equal importance to other ongoing responsibilities.
6. *Recognize the interdependence between new capital facilities and future operating expenditures*: oftentimes new capital facilities; swimming pools, park and recreation facilities, new or expanded jails, etc will impact future operating budgets. Before agreeing to invest in such facilities the county or city should undertake a comprehensive fiscal analysis to determine what the ongoing operating and maintenance costs will be and whether they can be absorbed.
7. *Manage nonrecurring revenues and expenditures*: oftentimes local governments get into trouble by believing that revenues arising during periods of strong economic growth will continue indefinitely, only to find that when the economy stabilizes there arises a *shortfall* and new services cannot be sustained. A portion of those excess revenues should be set aside to cover reduced revenues during economic downturns and for nonrecurring capital expenditures. Similarly, unanticipated and emergent expenditures should be outside of the traditional operating budget and defrayed from reserves and other resources unless the jurisdiction is large enough to be able to annually predict such needs.
8. *Budget ending cash balances and establish reserve accounts*: every county and city should budget between one and two months of beginning cash balances to provide for meeting expenditures prior to the receipt of the new fiscal year's revenues. In addition, reserves should be established to meet ongoing commitments, such as vacation and sick leave buyouts upon separation, and for smaller jurisdictions to accommodate sick and vacation leave accruals potentially necessitating overtime and temporary employees. In addition, it is encouraged that all jurisdictions fund a budget stabilization or "rainy day" fund that could be used to offset declining revenues during economic downturns. The latter could also be tapped to meet unanticipated or emergent needs.
9. *Manage debt and borrow when beneficial*: most local officials lack the sophistication to understand when it may be desirable to incur "inside" (council-manic or commissioner authorized) debt and how to manage debt. Often county and city officials want to "save" for a major project rather than issue bonds due the fear of debt overwhelming their operating budget. The reality is that when the annual inflation in construction costs exceeds the cost of borrowing it is prudent to incur debt, especially when the debt is to be amortized by a guaranteed revenue stream such as road district tax levies or ongoing utility charges. This is especially true when borrowing from the Public Works Assistance Account or the state Clean Water or Safe Drinking Water Revolving Funds, all of which have inordinately low interest rates.
10. *Develop a long term fiscal "vision"*: the elected officials in every county and city, regardless of size should, in concert with their senior fiscal staff and administrators undertake a periodic fiscal retreat. Such a retreat should be used to review long term revenue and expenditure trends and to provide

guidance in the long term strategic plan for the jurisdiction. A fiscal retreat can also be a source of fiscal training for newly elected officials as well as provide the means to determine the long term sustainability of existing and new service demands.

### Wise Fiscal Management: The “Don’ts”

Strategic fiscal management requires not only the adoption of positive behaviors, it also encourages elected officials to implement fiscally prudent restraints; the *DON’Ts*. Following is a brief list of suggested restraints designed to enable counties and cities to avoid a fiscal cliff:

1. *Don’t encumber future budgets by excessive reliance on commissioner/councilmanic debt that is not secured by a guaranteed revenue stream.* In many counties and cities there has been a tendency during good economic times to invest in capital improvements funded by ongoing general fund revenues only to find that when the economy returns to a normal growth rate that revenues decline and traditional services cannot be maintained.
2. *Don’t inflate revenue forecasts or underestimate expenditures simply to “balance” the budget.* The budget is a prediction of the level of available resources and the costs of providing a market basket of services. Elected officials must accept the forecasts provided by their finance professionals and should never arbitrarily change those forecast simply to accommodate desires for enhanced or expanded services.
3. *Don’t defer necessary mid-year budget adjustments* to accommodate political expediency. Frequently, when there is a revenue shortfall local officials are hesitant to reduce spending. The budget must be considered a “living” document that may need to be altered to respond to changing conditions. The sooner that budget cuts can be implemented the less dramatic the changes that may be required.
4. *Don’t make promises you can’t keep.* Frequently state and local officials tend to promise to their constituents enhanced and new services or tax cuts that cannot be implemented. This tendency raises expectations and when they fail to materialize they may cause hard. Elected officials need to be realistic and periodically review the jurisdiction’s spending priorities to determine whether the implementation of such promises is of a higher priority than current marginal expenditures.

### Conclusion

For most local officials, fiscal management of a government is a difficult, if not an impossible responsibility. The citizenry expects wise prudent management, certainty of service delivery, and reasonable and consistent levels of taxation. They are unaware of the impacts of changes in economic conditions on the available resources to their governments. It is incumbent on local officials to manage their responsibilities in such a manner as to try to provide a consistent level of services and to periodically step back and reevaluate what it is that the jurisdiction does provide and whether the array of and level of services is consistent with the priorities of the citizenry. The afore listed “*Do’s*” and “*Don’ts*” are not intended to be an exhaustive list but rather guidelines enabling local elected officials to better discharge their fiscal management responsibilities and gain an understanding of the complexities of public sector budgeting.