

Before the Basics

August 1, 2024



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Presenters



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Administrative Services
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MRSC

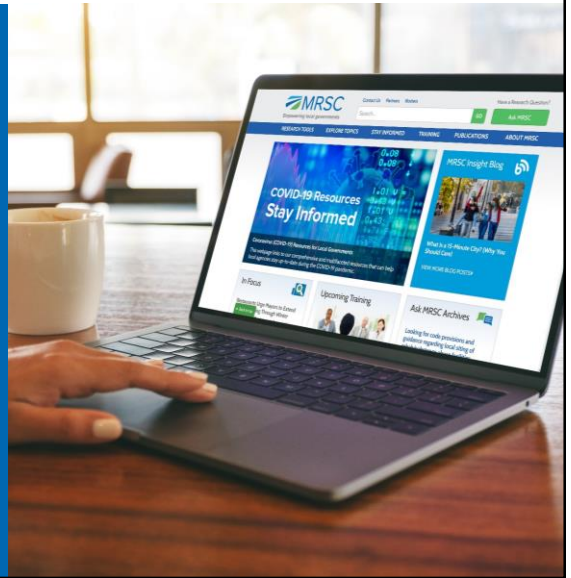
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About MRSC



Research and Consulting Services for Washington Local Governments and State Agencies

- Free consultation (Ask MRSC)
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- Sample documents
- Research tools



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Agenda



- Revenues
- Funds
- Budget
- Financial Policies
- Debt



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Revenues



PRIMARY REVENUE SOURCES

- Property taxes
- Sales taxes
- State shared revenues
- Utility taxes
- Business and Occupation (B&O) taxes

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Revenues



PROPERTY TAXES

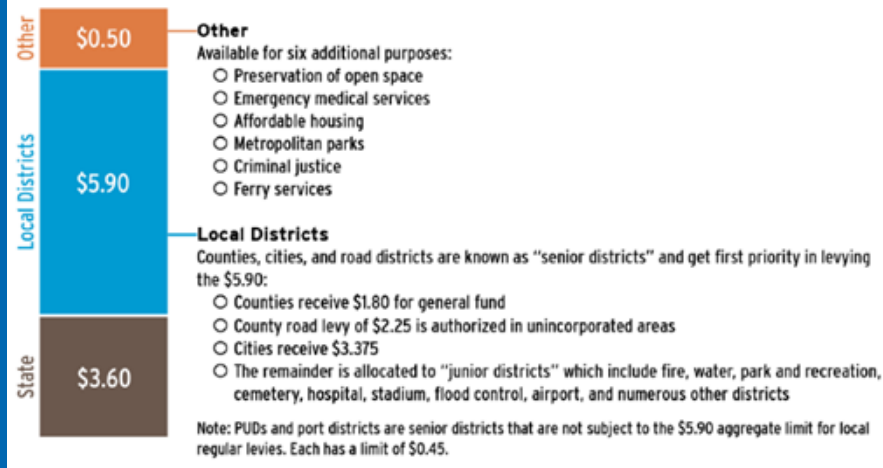
- Limited to 1% increase per year, plus new construction
- Majority of property taxes received in April/May and October/November
- Unrestricted revenue – can be used for any lawful government purpose

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Revenues



\$10 Property Tax Limit In Washington



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Revenues



PROPERTY TAXES

City maximum regular levy rate is \$3.60

- Maximum levy rate is reduced by:
 - Regular levy of fire district (up to \$1.50)
 - Regular levy of library district (up to \$0.50)
- Maximum is increased by \$0.225 if city has firefighters' pension fund

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Revenues



PROPERTY TAXES

Additional property tax levies

- Excess Levies (Operations & Maintenance)
- General Obligation Bond Excess Levy (Capital Purposes)
- Emergency Medical Services (EMS) Levy
- Affordable Housing Levy

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Revenues



SALES TAX

- **Percentage varies by city (7.5% to 10.6%)**
 - **6.5% - State**
 - **Remainder varies**
 - City
 - County
 - Transit district
 - Public facilities district

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Revenues



SALES TAX

- **Distributed by Department of Revenue Monthly**
 - **Can be impacted by season**
- **Restrictions**
 - First and second half percent (total 1%) is unrestricted
 - Any other components are restricted to a specific purpose
 - Public Safety
 - Transportation Benefit District (TBD)
 - Housing & Related Services
 - Mental Health & Drugs

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Revenues



SALES TAX

Cities can be restricted from imposing certain taxes if county has already imposed:

- Public Safety
- Housing & Related Services
- Cultural Access Program

Check out MRSC's [Local Sales Tax Rates & Components](#)

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Revenues



STATE SHARED REVENUES

Revenues distributed to cities by formulas set in state statute or appropriated in the state budget

- Cannabis Excise Tax
- City Assistance Distributions
- Criminal Justice Revenues
- Fire Insurance Premium Tax
- Liquor Revenues
- Transportation Distributions
 - Motor Vehicle Fuel Tax (MVFT), Increased MVFT, and Multi-Modal Funds

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Revenues



UTILITY TAXES

- Imposed on gross revenue of utility
- Revenues are unrestricted

Type of Utility	Maximum Utility Tax Rate
Electricity; Natural gas; Steam	6% unless voters approve higher rate (RCW 35.21.870)
Telephone (including cell phone/pager)	6% unless voters approve higher rate (RCW 35.21.870), but when taxing cell phone services cities may not tax Internet services (see below)
Broadcast satellite TV	May not be taxed (see 47 U.S.C. §152 under "Notes" tab)
Cable TV	Tax rate may not be "unduly discriminatory" (see 47 U.S.C. §542(g)(2)(A)); we suggest it should not exceed your other utility tax rates
Internet	May not be taxed (Internet Tax Freedom Act moratorium made permanent in 2016 – see 47 U.S.C. §151 under "Notes" tab)
Sewer; Solid waste; Stormwater; Water	No limit prescribed by state or federal law

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Revenues



B&O TAXES

- **Three elements:**
 - Taxable event (sale, manufacturing, service, occupation of physical space, or employment of person)
 - Measure of the tax (gross receipts, number of employees, square footage, or some other basis)
 - Rate of the tax (amount paid per measure)
- **Revenues are unrestricted**
(does your city have staff to oversee B&O tax administration)

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Revenues



STATE SHARED REVENUES

MRSC's [State Shared Revenue Estimator](#)

- Update July 31
- Provides revenue estimates for population-based distributions for the next year

2024 State Shared Revenue Estimator		
Select Jurisdiction	2024 Per Capita Estimates for	
(select city or county)	Liquor Profits	\$0.00
	Liquor Excise	\$0.00
	Criminal Justice - Population	\$0.00
	Criminal Justice - Special Programs	\$0.00
	Gas Tax (MVFT)	\$0.00
	Increased MVFT	\$0.00
	Multi-Modal Distribution	\$0.00
2023 Population:	0	
Estimated Distributions (per capita revenues only)		
Liquor Profits		\$0
Liquor Excise		\$0
Criminal Justice - Population		\$0
Criminal Justice - Special Programs		\$0
Gas Tax (MVFT)		\$0
Increased MVFT		\$0
Multi-Modal Distribution		\$0



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Revenues



BUDGET SUGGESTIONS

Discusses:

- Property tax, sales tax, & B&O taxes
- Economy
- Budget calendar
- State shared revenue projections
- Published July 31 each year



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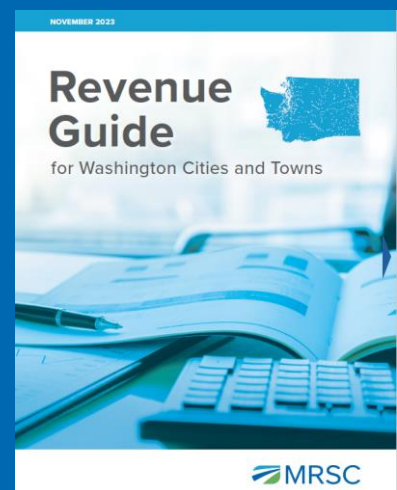
Revenues



MRSC REVENUE GUIDE FOR WA CITIES AND TOWNS

Discusses:

- Property taxes (types of levies, levy lid lifts, levy certification, etc.)
- Retail sales taxes
- Business & utility taxes
- Lodging taxes
- Real Estate Excise Taxes (REET)
- State shared revenues



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Revenues



LODGING TAX

RCW 67.28.1816 states that Lodging Tax revenues can be used for the following purposes:

- Tourism marketing
- Marketing and operations of special events and festivals designed to attract tourists
- Operations and capital expenditures of tourism-related facilities owned or operated by a municipality or public facilities district
- Operations of tourism-related facilities owned or operated by a nonprofit

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Revenues



REAL ESTATE EXCISE TAX (REET)

Chapter 82.46 RCW

- REET 1 – 0.25%
 - Restricted to capital projects listed in capital facilities plan
- REET 2 – 0.25% (must be fully planning under GMA)
 - Restricted to certain transportation, water/storm/sewer, and park capital purposes

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Revenues



REET 1 RCW [82.46.010\(2\)](#)

Uses include:

- planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of streets; roads; highways; sidewalks; street and road lighting systems; traffic signals; bridges; domestic water systems; storm and sanitary sewer systems; parks; recreational facilities; law enforcement facilities; fire protection facilities; trails; libraries; administrative facilities; judicial facilities; river flood control projects
- Maintenance of existing REET 1 capital projects – limited to greater of \$100k or 25% of REET revenue, not to exceed \$1 million

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Revenues



REET 2 RCW [82.46.035\(2\)](#)

Uses include:

- Planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of streets, roads, highways, sidewalks, street and road lighting systems, traffic signals, bridges, domestic water systems, storm and sanitary sewer systems; planning, construction, reconstruction, repair, rehabilitation, or improvement of parks
- Maintenance of certain capital projects, REET 1 capital projects – limited to greater of \$100k or 25% of REET revenue, not to exceed \$1 million

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Funds



FUND

- Separate “bank account”
- Beginning cash + Revenues – Expenditures = Ending cash
- Typically, does not require a separate bank account
- Just because you can create one, doesn’t mean you should (consider if your software can provide the information you want)

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Funds



TYPES OF FUNDS

- Governmental Funds
- Proprietary Funds
- Fiduciary Funds

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Funds



GOVERNMENTAL FUNDS

- General Fund (general operations)
 - Includes managerial funds
- Special Revenue Fund (restricted or committed resources)
- Debt Service Funds
- Capital Funds

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Funds



PROPRIETARY FUNDS

- Business type funds (utilities)
- Supported by customer fees
- Can have different funds for each utility
 - Operations & Maintenance
 - Capital
 - Debt Service

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Financial Policies



Core Financial Policies (see [MRSC Financial Policies Toolkit](#)):

- Asset management
- Cost allocation
- Credit card use
- Debt management
- Fund balance and reserves
- Investment
- Travel and expense reimbursement

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Financial Policies



FUND BALANCE & RESERVE POLICIES

Appropriate Fund Balance Level

- General fund no less than 60 days (16.5%)
- Enterprise funds no less than 45 days (12.3%)
- Consider debt payments

See [BARS Manual Section 3.1.8](#) for discussion of emergency and reserve funds

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Financial Policies



FUND BALANCE & RESERVE POLICIES

Appropriate Fund Balance Level (continued)

- Consider revenue sources
 - Property taxes – April 30 & October 31
 - Utilities
 - Seasonal fluctuations
 - Customer base (loss of big customer)
 - Billing frequency
- Consider likely natural disasters – wildfires, landslides, flooding
- Buffer for economic downturns

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Financial Policies



FUND BALANCE & RESERVE POLICIES

Use and Replenishment of Funds

- When can reserves be used?
 - Define triggering events and what counts as an emergency
- How will reserves be replenished when used?
 - Revenues potentially to be used
 - Set time frame (usually 1 to 3 years)



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Financial Policies



FUND BALANCE AND RESERVES

Reporting Period:
2023 Target vs. Actual

City Targeted Reserve Funds: The City uses the following classifications:

Total ACTUAL Revenues 12,537,581
Total ACTUAL Operating Expenses 11,285,682

1. **Minimum Fund Balance Reserves:** Provides a financial cushion for revenue fluctuations and cyclical activity through General Operations.

	Min	Mid	Max	Min	Mid	Max	Min	Mid	Max	Min	Mid	Max
General Fund and Streets	15% ongoing revenues		20% ongoing revenues	1,880,637	2,194,077	2,507,516	183,292	213,841	244,389			
Water Unrestricted	3 months operating expenditures		5 months operating expenditures				696,574	888,785	1,110,957			
Sewer Unrestricted	3 months operating expenditures		5 months operating expenditures							1,291,377	1,668,903	2,065,629

2. **Economic Uncertainty Reserves:** Provides a financial cushion against uncertainties inherent financial or economic circumstances, emergencies, litigation, etc.

	Min	Mid	Max	Min	Mid	Max	Min	Mid	Max	Min	Mid	Max
General Fund and Streets	1% ongoing revenues		3% ongoing revenues	125,376	250,752	376,127	12,219	24,439	36,658			
Water Unrestricted	1% ongoing revenues		3% ongoing revenues				28,761	57,523	86,284			
Sewer Unrestricted	1% ongoing revenues		3% ongoing revenues							52,207	104,415	156,622

3. **Extra Liabilities Reserves:** These amounts are set aside for a specified purpose, related to an accrued obligation or to set-aside for a future obligation. This should include reserves for a portion of accrued compensation (paid time off and sick leave) that is paid to all employees as of the reporting period.

	Min	Mid	Max	Min	Mid	Max	Min	Mid	Max	Min	Mid	Max
General Fund and Streets	1% ongoing revenues		3% ongoing revenues	125,376	250,752	376,127	12,219	24,439	36,658			
Water Unrestricted	1% ongoing revenues		3% ongoing revenues				28,761	57,523	86,284			
Sewer Unrestricted	1% ongoing revenues		3% ongoing revenues							52,207	104,415	156,622

Less Unrestricted Reserves

	Min	Mid	Max	Min	Mid	Max	Min	Mid	Max	Min	Mid	Max
General Fund and Streets	(17,000)	(17,000)	(17,000)	(16,000)	(16,000)	(16,000)	-	-	-	52,207	104,415	156,622
Water Unrestricted										(8,000)	(8,000)	(8,000)
Sewer Unrestricted												

Target Reserve per Policy

	Min	Mid	Max	Min	Mid	Max	Min	Mid	Max	Min	Mid	Max
General Fund and Streets	2,114,389	2,678,580	3,242,711	201,731	256,719	311,706	724,097	1,903,811	1,263,526	1,340,702	1,871,332	2,362,873
Water Unrestricted	3,693,977	3,693,977	3,693,977	258,385	258,385	258,385	1,535,336	1,535,336	1,535,336	2,489,836	2,489,836	2,489,836
Sewer Unrestricted	1,579,588	1,615,397	491,266	56,654	1,666	(55,321)	611,239	534,329	251,811	1,141,043	619,303	97,942

Actual Ending Fund Balance

	Min	Mid	Max	Min	Mid	Max	Min	Mid	Max	Min	Mid	Max
General Fund and Streets	1,579,588	1,615,397	491,266	56,654	1,666	(55,321)	611,239	534,329	251,811	1,141,043	619,303	97,942
Water Unrestricted	4	4	4	2	2	2	7	7	7	16	16	16
Sewer Unrestricted	17%	21%	26%	17%	21%	26%	25%	35%	45%	20%	30%	40%

Months of Operations Policy Target as a % of Reserve Actual as a % of Reserve

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Financial Policies



FUND BALANCE AND RESERVES

Reporting Period:
2023 Target vs. Actual

City Targeted Reserve Funds: The City uses the following classifications:

Total ACTUAL Revenues 12,537,581
Total ACTUAL Operating Expenses 11,285,682

1. **Minimum Fund Balance Reserves:** Provides a financial cushion for revenue fluctuations and cyclical activity through General Operations.

			General Fund			Street Ops		
	Min	Max	Min	Mid	Max	Min	Mid	Max
General Fund and Streets	15% ongoing revenues	20% ongoing revenues	1,880,637	2,194,077	2,507,516	183,292	213,841	244,389
Water Unrestricted	3 months operating expenditures	5 months operating expenditures						
Sewer Unrestricted	3 months operating expenditures	5 months operating expenditures						

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Financial Policies



FUND BALANCE AND RESERVES

2. **Economic Uncertainty Reserves:** Provides a financial cushion against unanticipated adverse financial or economic circumstances, emergencies, litigation, etc.

	Min	Max
General Fund and Streets	1% ongoing revenues	3% ongoing revenues
Water Unrestricted	1% ongoing revenues	3% ongoing revenues
Sewer Unrestricted	1% ongoing revenues	3% ongoing revenues

125,376	250,752	376,127	12,219	24,439	36,658
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Financial Policies



FUND BALANCE AND RESERVES

3. **Future Liabilities Reserves:** These amounts are set aside for a specified purpose, related to an accrued obligation or to self-insure for a future obligation. This should include reserves for a portion of accrued compensation (paid time off and sick leave) that is paid to an employee upon separation from employment.

	Min	Max
General Fund and Streets	1% ongoing revenues	3% ongoing revenues
Water Unrestricted	1% ongoing revenues	3% ongoing revenues
Sewer Unrestricted	1% ongoing revenues	3% ongoing revenues

125,376	250,752	376,127	12,219	24,439	36,658
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Less Unemployment Reserve

(17,000)	(17,000)	(17,000)	(6,000)	(6,000)	(6,000)
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Budgets



- [Budget Calendars](#) available to download on MRSC website

Statutory Deadlines for Preparing 2025 City/Town Budgets	
Pre-Budget Items (Spring/Summer 2024)	Council retreat; Adopt/update financial policies; Public hearings for capital facility plan updates; Public forums or community outreach (ex: community priorities); Mayor/manager communicates budget objectives to staff
Sept. 9	Budget request to all department heads
Sept. 9-22	Department heads prepare estimates of revenues and expenditures; Clerk prepares estimates for debt service and all other estimates
Sept. 23	Budget estimates from department heads filed with clerk
Sept. 25	Implicit price deflator calculated (only applies to cities of 10,000+ population)
Oct. 1	Clerk provides estimates filed by department heads to mayor/manager showing complete financial program
Oct. 7	Mayor/manager provides council with estimates of revenues from all sources, including estimates prepared by clerk, for consideration of setting property tax levy
Mid-October to mid-November (approx.)	Public hearing on revenue sources including possible increases in property tax
Nov. 7	Mayor/manager prepares preliminary budget and budget message;

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Budgets



CRITICAL DEADLINES:

Property tax public hearing and levy adoption – Nov 30

Final budget hearing – on or before 1st Monday of Dec

Adoption of budget – on or before Dec 31

Budget amendments for current year – by Dec 31

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Budgets



PROPERTY TAX LEVY HEARING

- **City maximum levy rate \$3.60**
 - Maximum reduced by regular levy of fire district (up to \$1.50) and/or library district (up to \$0.50)
 - Maximum increased by \$0.225 for firefighters' pension fund
- **\$5.90 local levy limit and \$10.00 constitutional limit**

MRSC [Property Tax Basics](#) webpage

MRSC levy history for [cities and towns](#)

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Budgets



SALARY SCHEDULES

[RCW 35A.33.050](#) and [RCW 35.33.051](#) require city budgets to list salary or salary range for each office, position, or job classification. This can either be a separate salary schedule or set out in total amounts under each department.

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Budgets



Budget ordinance (MRSC sample)

- Ordinance should include a chart of the budget

Sample Budget Ordinance

ORDINANCE NO. _____

AN ORDINANCE ADOPTING THE BUDGET FOR THE CITY OF _____, WASHINGTON, FOR THE FISCAL YEAR ENDING DECEMBER 31, 20____

WHEREAS, the City of _____, Washington completed and placed on file with the City Clerk a proposed budget and estimate of the amount of moneys required to meet the public expenses, bond retirement and interest, reserve funds, and expenses of government of the City for the fiscal year ending December 31, 20____; and

WHEREAS, a notice was published that the City Council would meet on December ____, 20____, at _____ p.m., in the council chambers of city hall for the purpose of making and adopting a budget for said fiscal year and giving taxpayers within the limits of the City an opportunity to be heard in a public hearing upon said budget; and

WHEREAS, the City Council did hold a public hearing at that time and place and did then consider the matter of the proposed budget for the fiscal year 20____; and

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Budgets



Fund	Estimated Beginning Fund Balance	Estimated Revenues	Appropriations/ Expenditures	Estimated Ending Fund Balance
General Fund	300,000	2,600,500	2,300,000	600,500
Street Fund	200,000	1,200,000	950,000	450,000
Library Fund	25,000	575,000	500,000	100,000
Emergency Rescue	25,000	750,000	725,000	50,000
Capital Projects	30,000	258,000	258,000	30,000
Water Utility Fund	50,000	500,500	475,000	75,500
Sewer Utility Fund	100,000	1,275,000	1,175,000	200,000
Water Redemption Fund	-	78,807	78,807	-
Water Construction	-	2,500,000	2,500,000	-
Water Loan Reserve	-	78,807	-	78,807
Equipment Rental	25,000	125,000	75,000	75,000
Internal Service	-	350,000	310,000	40,000
Total All Funds	755,000	10,291,614	9,346,807	1,699,807

\$11,046,614

\$11,046,614

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Debt



TYPES

- General Obligation (GO) debt
- Revenue debt
- Special assessment debt

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Debt



GO DEBT

- Secured by “full faith and credit” of the local government
- Tax revenues pledged unconditionally to repay debt
- Subject to constitutional and statutory debt limitations
- Limited Tax General Obligation (LTGO) bonds
 - Non-voted (councilmanic)
 - Does not provide additional tax revenues to repay

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Debt



REVENUE DEBT

- Debt guaranteed by specific revenue streams, not taxation
- Utilities guarantee revenues from customer utility bills
- Not subject to constitutional or statutory debt limits

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Debt



SPECIAL ASSESSMENT DEBT

- Debt guaranteed by assessments against benefitting property owners
- Local Improvement Districts (LIDs) – infrastructure projects that benefit specific property owners who pay their proportionate share of the improvements

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CONSTITUTIONAL DEBT LIMITS

- Non-voted (councilmanic) – 1.5% of assessed value (AV) of taxable properties in taxing district
- Total debt (voted and non-voted) – not greater than 5.0% of AV

Cities and towns can increase limit to 10% with voter approval (for water, lights, and sewer)

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Questions

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