UTILITY TAX FREQUENTLY ASKED QUESTIONS

What is the impact to me personally?

Q: How much of a monthly increase can I expect to pay on my utilities?
A: The utility tax is 6%. If, on an average month, a resident pays $50 for basic cable TV, $125 for combined gas and electric, and $13.50 for a residential landline telephone, $10.50 for stormwater, altogether your increase would be $11.94 per month. The cost of internet service is not subject to the tax, even if provided by the phone or cable TV provider. (ANSWER REVISED 10/27/14)

Q: Which utilities would be taxed?
A: As allowed by state law, the City ordinance proposes levying the tax on electric energy, natural or manufactured gas, solid waste, surface water management, telephone, or cable television business within the City. State law allows a City Council to place the utility tax at up to 6%. Internet service and satellite television service is not subject to the tax. (ANSWER REVISED 10/28/14)

Q: Is the City offering any relief from the utility tax?
A: The City Council is considering a tax relief program for those in need. In order to be eligible, a City resident must qualify as very low income and be either 65 or older or disabled and unable to work. The amount of the relief varies depending on the annual amount of utility tax the resident is paying. For more details, see the City ordinance. (ANSWER REVISED 10/28/14)

Q: If I'm eligible for the tax relief, how much can I expect to pay?
A: If considering the above scenario, an individual eligible for the relief program would get a $100 annual rebate. This would mean the individual would pay $3.60 per month after rebate. (NEW QUESTION 10/28/14)

Why is the City considering a utility tax?

Q: Why is this new tax being levied?
A: The City is facing a $5.5 million projected budget shortfall in its general fund by the end of 2016 and a projected $14 million budget shortfall by the end of 2018. Through 2018, utility tax, along with proposed cuts and increased fees, would be used to balance the budget. Overall, the City has a general fund budget of approximately $34 million. There are other special funds, restricted by State laws, but the general fund is where the City funds general governmental operations, a majority of which is police and fire services.

Q: How did we find ourselves in such a large hole?
A: The City has been projecting and discussing this deficit since 2012. In June 2012, at a budget workshop, staff shared that a $ 1 million deficit was projected in 2015 and continued to grow in the years that followed. Given the fact that the 2013-14 biennial budget could balance without a utility tax, the Council decided not to formally consider the new utility tax. The primary reasons for the deficit follow:

- Expenses

- The City contracts with the King County Sheriff's Office for police services. The cost of deputies alone increased 25% from the 2007-2011. The cost of the police contract makes up 31% of the City general fund budget. (ANSWER REVISED 10/29/14)
- The City contracts with the Kent Regional Fire Authority for fire services. This contract began in 2014. The City paid approximately $500,000 more in 2014 than it would have to fully staff its own department. It made this decision projecting that long-term cost savings will be achieved using a regional model and understanding that the level of service to the public would be greatly enhanced. The cost of the fire contract makes up 29% of the City general fund budget. (ANSWER REVISED 10/29/14)
- Of the other 43% of the General Fund, 3% is related to Jail costs, 1.5% to Human Services Funding, and the other 38.5% is from 11 different City Departments whose costs are primarily personnel (approximately 80% of their department costs) . The average increase to staffing costs annually is approximately 3.5%.
    - COLA-Typically, City staff receive Cost of Living Adjustments (COLA) annually to keep up with inflation. (Although during the recession we have employed strategies such as furloughs and deferral of COLA's). These COLA's are subject of negotiation with our AFSCME bargaining unit (75 employees). With the notion of equal treatment of City employees, typically non-union staff have received identical COLA's to union employees (though not always).
    - Health insurance-Premiums tend to increase on an annual basis, adding to the increased staffing costs. Our employees do pay a share of the premium costs.

- Revenues
    - While the costs to provide services continue to increase, revenues have remained stagnant. In particular, Initiative 747, passed in 2001, capped the amount of property tax increase the City could collect to 1%. This is outstripped by the annual cost increase to provide services.
    - Retail sales tax collection is consumption based and highly variable based on the economy. During the recession, the City sales tax revenues dropped substantially. Construction sales tax collection has not met projections as large projects at the Port of Seattle have been delayed and collection from Sound Transit projects have not met projections.
    - Other State and Federal unfunded mandates continue to require specific City actions with no funding to pay for those additional requirements.

Q: Given that Sea-Tac International Airport is within City boundaries, doesn't the City have unique funding sources to tap into to help fund operations?

A: Yes and no. Yes, the City has unique funding sources. No, they can't be used for general expenditures. The City receives over $5 million annually from parking tax receipts at $3 per transaction. By state law, these funds must be spent only on transportation related projects (examples include International Boulevard, Military Road, 28th/24th extension). The City also receives over $1 million per year in lodging taxes. By state law, these funds must be spent only on programs to attract more visitors to the area.

In addition, while businesses at the airport do generate sales tax, the City does not collect property tax on airport parcels making up nearly ¼ of the land area in SeaTac. Further, development is severely restricted north and south of the runways for safety precautions, making potential redevelopment sites undevelopable.

The City also received $10 million in mitigation funds as part of an Interlocal Agreement as mitigation for the 3rd runway. The City used this money to purchase the SeaTac Center at 154th and International Boulevard in order to control property and compel future development. Currently, the center is fully leased as we evolve our redevelopment plans with hopes of requesting and receiving development proposals in 2015. Revenue coming from the facility helps in maintenance and improvement of that property and other City facilities. The City anticipates recovering its initial investment when it sells to a developer and reinvesting the dollars in capital projects in the community.

How can the City address the budget shortfall?

Q: How is the City proposing to address the shortfall besides levying a utility tax?

A: In addition to utility tax, the City is proposing both cutting expenses and raising fees.

- Cutting expenses-The City is proposing cutting $900,000 dollars in expenses during the 2015-16 biennium. The majority of these dollars are reflected in cuts to City personnel. The City also cut over $1 million in expenses in 2011, the majority of which were personnel cuts. (ANSWER REVISED 10/28/14)
- Raising fees-In addition to the utility tax, the City is considering adjusting fees for permits and licenses. A study was conducted of fees assessed in neighboring jurisdictions in order to inform this process. It is proposed that the City would adjust fees to reflect the market average (50%) of these neighboring cities. In many cases, fees haven't been adjusted since 1999, and in some cases, since 1990. As the cost to deliver services has increased over the years with inflation, the fees typically have not been adjusted. This has led to a situation where those increased costs have been absorbed by property and sales tax instead of those who are receiving the service (i.e. land use permits, business licenses, right-of-way permits, etc).

Q: What would result if the City decided not to levy a utility tax?

A: The primary revenue sources that the state allows the City to use are property tax, sales tax, utility tax, and to a lesser extent Business & Occupation Tax (not being considered). Without a utility tax, the City would be compelled to further cut expenditures of $5.4 million in the 2015-16 biennium (in addition to the $900,000 in cuts already proposed).

Until this time, the City was able to make cuts that largely did not impact service levels. However, this magnitude of cuts would have severe impacts to service levels. Given that 55% of general fund expenditures pay for public safety (police and fire), service levels in those areas would likely be considered in order to achieve this magnitude of savings. Service levels for those seeking permits or licenses, services at the community center, upkeep of City parks and right-of-way, human services and community planning would also be considered, in addition to many other City services.