

Welcome to Washington

A Guidebook for City Managers

Finance & Budget

PRESENTED BY:

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WCMA
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We'll Discuss

- Constitutional Provisions
- BARS/Budget/Reserves
- Local Government Revenue Sources
- Property Tax
- Purchasing
- State Auditor



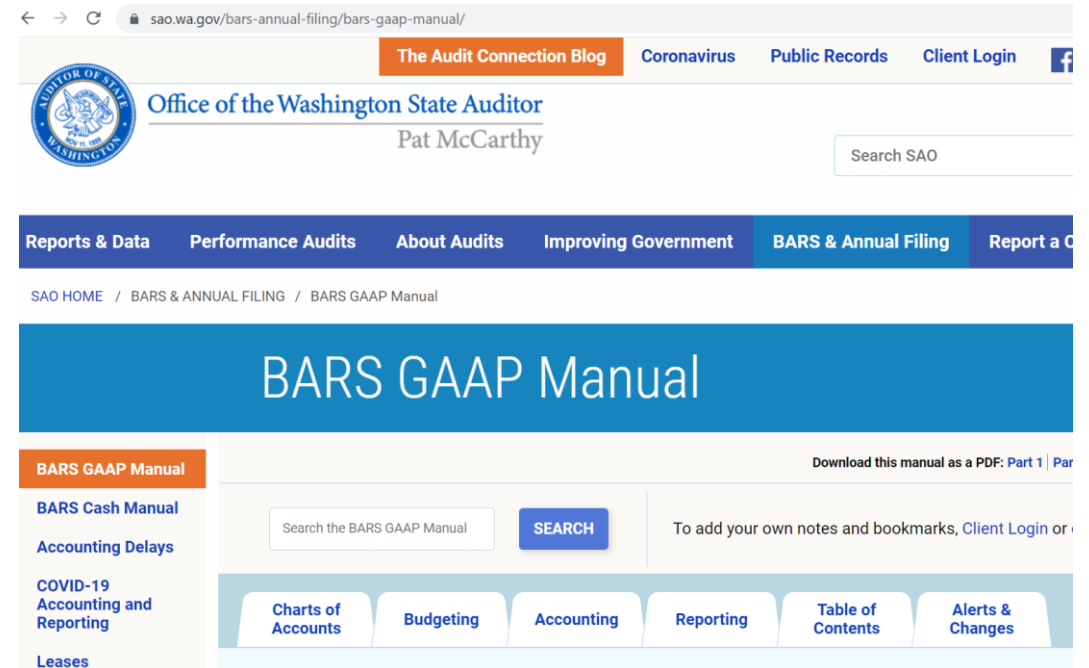
The Big Picture: Constitutional Provisions

- Gift of public funds prohibited
- No lending of public credit
- No income tax (but not in so many words)
- Aggregate property tax limit



Budgeting, Accounting and Reporting System (BARS)

- Proscribed system of accounting and reporting
- Outline of BARS manual
 - Chart of accounts
 - Budgeting
 - Accounting
 - Financial Reporting
- Considerations of working under BARS



The screenshot shows the website for the BARS GAAP Manual. The browser address bar displays 'sao.wa.gov/bars-annual-filing/bars-gaap-manual/'. The page header includes the Office of the Washington State Auditor logo and name, 'Pat McCarthy', and a search bar labeled 'Search SAO'. A navigation menu contains links for 'Reports & Data', 'Performance Audits', 'About Audits', 'Improving Government', 'BARS & Annual Filing', and 'Report a C'. Below the menu, the breadcrumb trail reads 'SAO HOME / BARS & ANNUAL FILING / BARS GAAP Manual'. The main content area features a large blue banner with the text 'BARS GAAP Manual'. To the right of the banner, there is a link to 'Download this manual as a PDF: Part 1 | Par'. On the left side, there is a sidebar with links for 'BARS GAAP Manual', 'BARS Cash Manual', 'Accounting Delays', 'COVID-19 Accounting and Reporting', and 'Leases'. The main content area includes a search bar with the text 'Search the BARS GAAP Manual' and a 'SEARCH' button. Below the search bar, there is a row of buttons for 'Charts of Accounts', 'Budgeting', 'Accounting', 'Reporting', 'Table of Contents', and 'Alerts & Changes'. At the bottom right of the main content area, there is a note: 'To add your own notes and bookmarks, Client Login or v'.



Budgeting

State law requirements

- Variations by type of city (code/non-code)

State law options – biennial versus annual

How BARS impacts budget approaches

- Chart of accounts
- Refers to statutory timelines and requirements
- Required public hearings (3, including 1 for property tax levy)
- Broad guidance only as to approach



Factors Contributing to Budget Balancing Challenges

- Citizen initiatives
- Property tax limitation
- Volatility of sales tax
- Growth in labor and benefit costs
- Binding arbitration



Saving for the Rainy Day

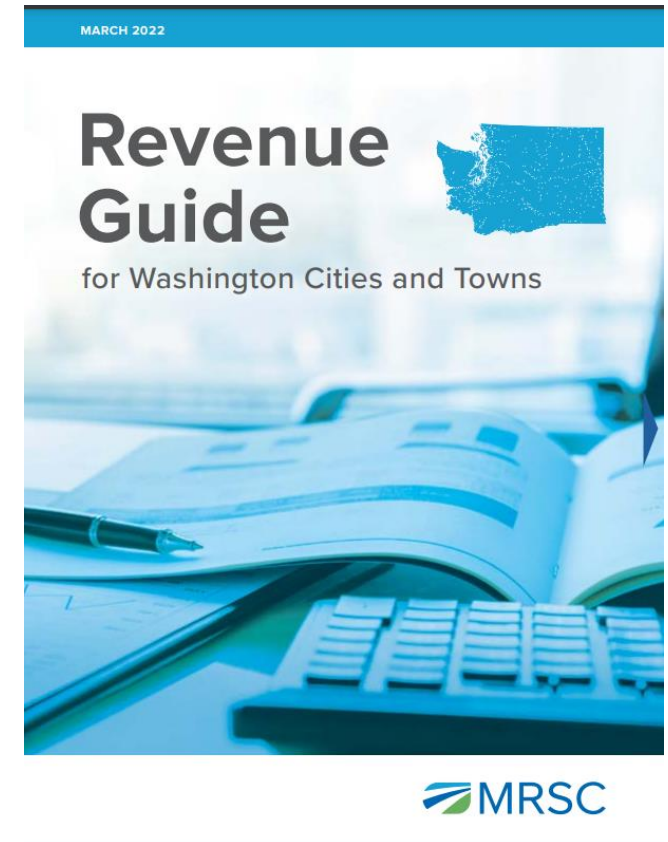
Statutory Reserves

- RCW 35A.33.145 - Contingency fund
 - Unforeseen expenses
 - Maximum accumulation limited to \$0.375 per \$1,000 of assessed valuation (AV)
- RCW 35.21.070 - Cumulative reserve fund
 - Can be for a variety of municipal purposes
 - 2/3 majority approval of Council to use for purposes not defined in local ordinance
- Requirement to segregate certain revenues (examples: impact fees, real estate excise tax, lodging tax)
- Other reserves can be established by local policy



Municipal Revenue Sources

- **Taxes – main focus for today**
- Permits and licenses (Regulatory)
- Intergovernmental payments
- Fees for service
- Fines and forfeits
- “Miscellaneous”



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Sales Tax - How Does it Work?

- Statutory authority: RCW 82.14.030
- Collected as percentage of sale
 - Clothing
 - Household goods
 - Automobiles
 - Eating out
- Destination of sale determines who gets the revenue (except automobiles)



How Much is the Sales Tax?

- Depends on location
 - In King County, most pay 10+% - MRSC's website provides a breakdown for cities and counties
- Items not taxed
 - Unprepared foods (Groceries)
 - Prescription drugs
 - Some public expenditures
 - Home sales



Where Does it Go? (Kirkland 2021 Example)

State of Washington	6.50%
King County/Metro	1.00
Criminal Justice Funding (KC)	0.10
Housing and Related Services (KC)	0.10
City of Kirkland (1.0 plus 0.1 with 15% remitted to County)	
Base City portion	0.85
Base County portion	0.15
Optional Voted 0.1% Criminal Justice ¹ City portion	0.085
Optional Voted 0.1% Criminal Justice ¹ County portion	0.015
Regional transit	<u>1.40</u>
Total rate	10.20%
Additional 0.3% for car sales and leases (Transportation) ¹	10.40%

¹Per RCW 82.14.450, 30% must be used from "criminal justice purposes: and this increment does not apply to car sales/leases.



Issues Affecting Sales Tax

- Economic conditions
- State mandates and initiatives
- Local land use decisions
- Economic development efforts
- Streamlined sales tax
- Legislation
 - 2019 example is HB1406 which shared a portion of the State's existing sales tax revenue for affordable housing and supportive services if certain actions are taken



Property Tax

- Statutory authority: RCW Title 84
- At least 30 types of taxing districts with different maximum levies individually and in aggregate
- Two main aggregate limits:
 - Statutory limit applies to most local regular tax levies (\$5.90 per \$1,000 AV)
 - Constitution limits the amount of property tax imposed on an individual parcel without voter approval to one percent of its true and fair value
 - If either limit is reached, the individual levy components are reduced for junior taxing districts first (it's complicated!)



Property Tax - How Does it Work?

- Levies are divided by the assessed valuation (AV) as determined by county assessor
- A “property tax rate” results
- The “Rate” is applied to every \$1,000 of assessed valuation on each property

Sample levy calculation:

Total levy \$15 million divided by
Assessed valuation \$10 billion/\$1,000 equals
Levy rate of \$1.50 per \$1,000 AV



Property Tax Truths

- The city determines its levy (total allowable property tax revenue or the amount needed to balance the budget if less)
 - Current levy plus allowance for new construction
 - Plus optional amount up to the lesser of . . .
 - Implicit Price Deflator
 - One percent
 - Banked capacity if available (allowable increase not taken in the past)
- The Assessor determines home values based on market values
- The tax rate per \$1,000 results from the math
- The rate is multiplied by the parcel's AV/\$1,000 to arrive at the individual tax bill



Property Tax Myths

- When the valuation goes up the city gets more revenue
- If the city raises property taxes by 1% my entire tax bill will go up 1%
- The city determines the tax rate, the Assessor determines my value and the city gets whatever revenue results
- My taxes go up every year

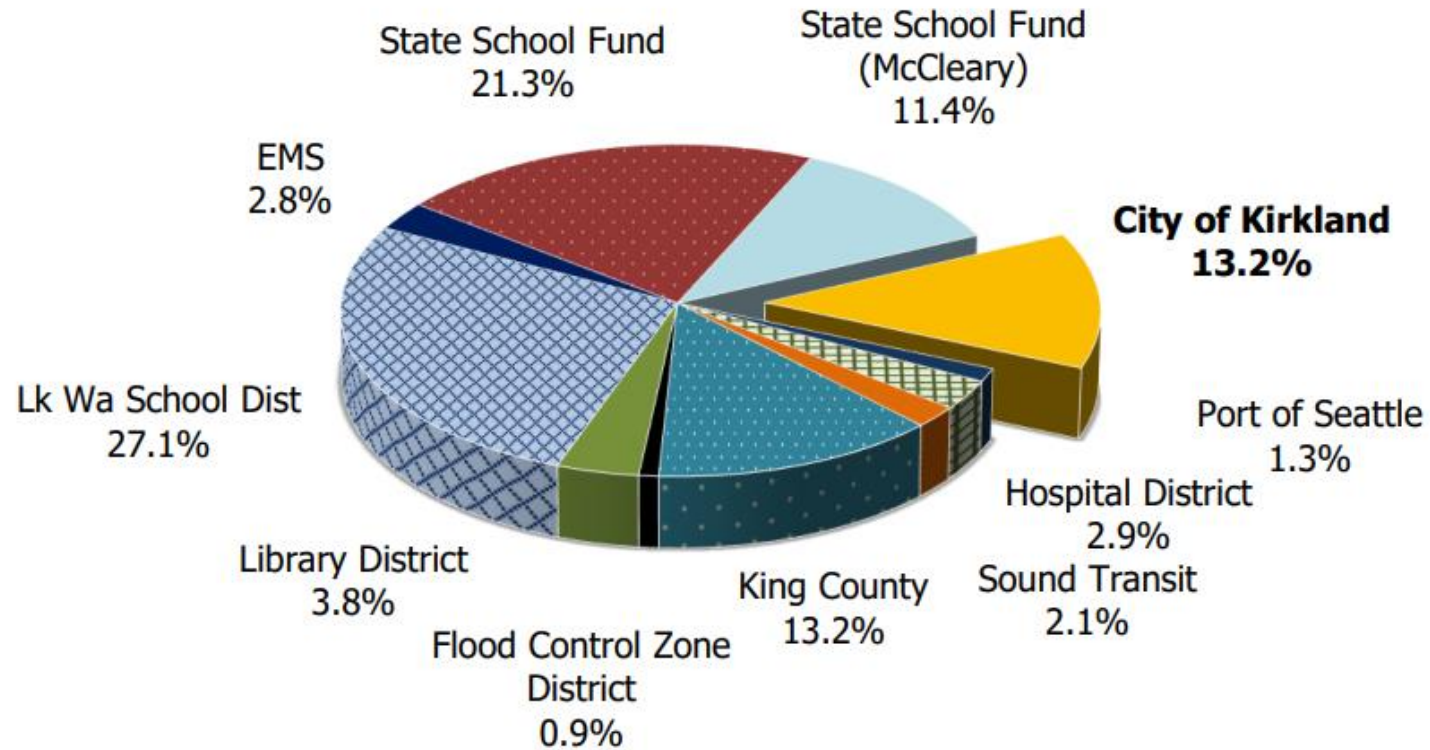


Factors Affecting Property Taxes

- City council decisions
- Decisions of other jurisdictions
- Decisions of voters
- County assessor's valuation
 - Your property
 - All other properties
 - Your property compared to all others
- New construction



Who Gets the Property Tax? (Kirkland 2021 Example)

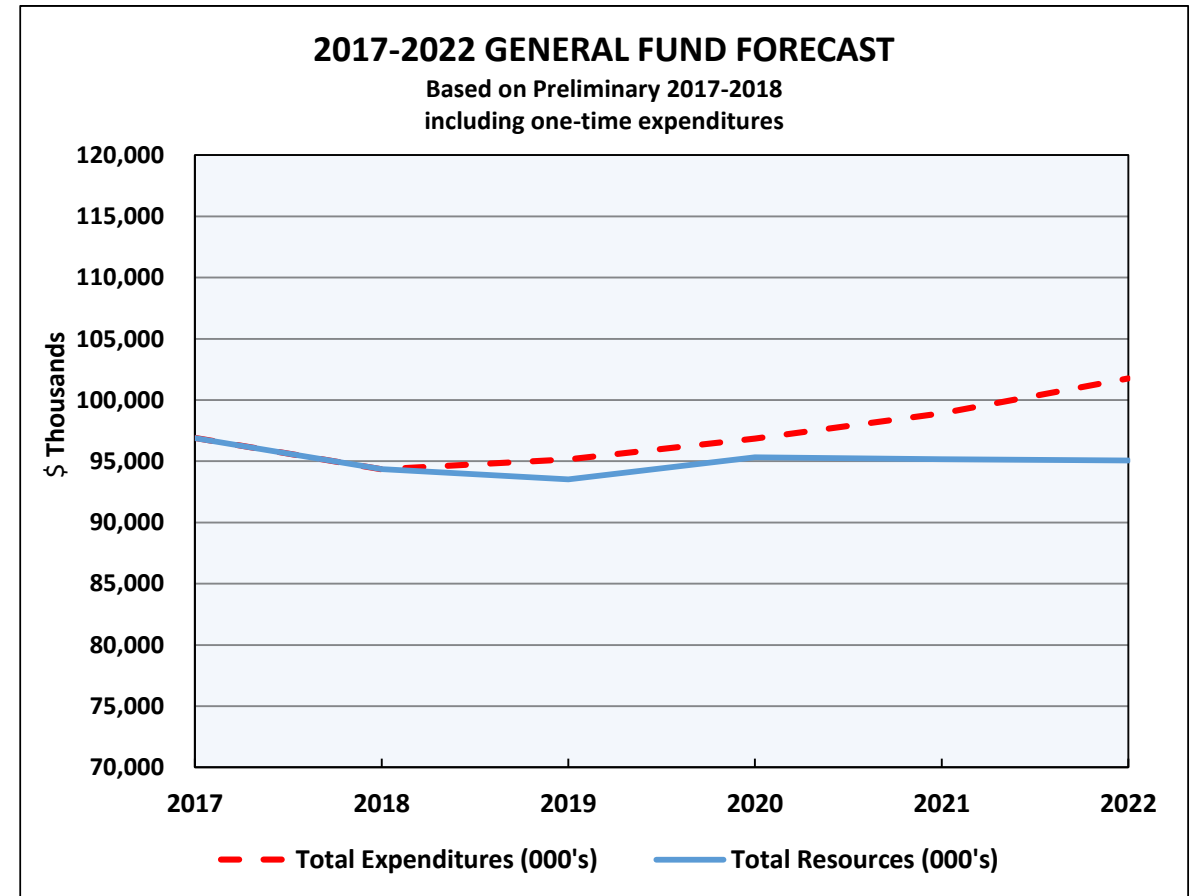


Total \$9.47/\$1,000 AV



Budget Implications

- 1% limit on base levy growth generally results in revenues growing slower than expenses (the diverging lines)
- Trends on growth from new construction can be hard to predict resulting in volatility
- In growing AV environment, the only way to access unused rate capacity is through a voted levy lid lift



Business and Occupation Tax (B&O tax)

- Statutory authority: RCW 35.22.280/35A.82.020/35.90.020, others
- Three main forms:
 - Excise (%) taxes levied on different classes of business to raise revenue
 - Licenses for the purpose of regulation only
 - Licenses to regulate and raise revenue
- Can take a variety of forms:
 - Percentage tax on gross revenues
 - Revenue Generating Regulatory Fee can be based on square footage, employees, type of business
- Local B&O tax requires a 'model ordinance' that is used by all cities within WA State that decide to adopt
 - The model ordinance is subject to updates and revisions once every 4 years
 - Those imposing business “licenses” use State Business License Services (BLS) for collection (unless elected to use FileLocal by 2020)



Utility Taxes

- Considered a B&O tax (RCW 35.21) and provided for in RCW 35.102.020
- Imposed upon the gross income of the utility (although some show it as a percent of total customer bill) on . . .
 - Public or private utilities such as electricity, natural gas, steam, telephone, cable (limited to 6% without a vote by RCW 35.21.870)
 - Public utilities such as water, sewer, garbage and surface water
 - Can be applied to special purpose utility districts although some choose a franchise fee as an alternative
- No statutory limit on the rate charged to the jurisdictions own utilities
- Counties cannot currently impose a utility tax (but they are trying!)



Other Taxes

- Real Estate Excise Tax (RCW 82.45 & 82.46)
- Lodging Tax (RCW 67.28.280)
- Gambling Taxes (RCW 9.46.110)
- Admissions Tax (RCW 35.21.280)
- Leasehold Excise Tax (RCW 82.29A)

...Collected by Others and Shared with Cities

- Gas Tax (RCW 46.68)
- Liquor Profits (RCW 66.24.065) and Liquor Excise Tax (RCW 8.08.160/170)
- EMS Levy (in some areas) (RCW 84.52.069)
- Criminal Justice Sales Tax (RCW 82.14.3**)
- Fire Insurance Premium Tax (RCW 46.16.050)
- Marijuana Excise Tax (RCW 69.50.530-540)



Other Revenues

- Intergovernmental payments
 - Grants (Federal and State)
- Permits and licenses (Regulatory)
- Fees for service
 - Fees should be based on cost of service
- Fines and forfeits
 - Parking fines set by council
 - All other fines set by state law
- Miscellaneous
 - Rents, settlements, interest income, etc.
- Other major capital resources
 - **Impact fees (RCW 82.02.050)**
 - Transportation Benefit District (RCW 36.73)



Purchasing

State law requirements can vary

- By type of city (2023 Legislative action standardized limits)
- By type of purchase
 - Public works
 - Architectural services
 - Professional services
 - Equipment purchases
- State contract and interlocal purchasing



Legal and Regulatory Environment

- Generally establishes avenues for purchasing and thresholds
- RCW
 - Established dollar limits and process for competitive bidding
 - Requires payment of prevailing wage
- Local municipal code (for code cities)
 - Establishes local limits and requirements
 - Allows interlocal agreements
 - Establishes internal authority and accountability



Other Considerations

- Cooperative purchasing (interlocal agreements)
 - State contract
 - Other agencies
 - Cooperatives
- Job order contracting (JOC)
- Sole source
- Emergency purchases



For More on Purchasing for Your Jurisdiction

Resources

- Your Jurisdiction's Municipal Code
- Municipal Research and Services Center – City Bidding Book



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Ethical/Audit Issues with Purchasing

- Influencing vendor selection
- Circumventing bid requirement/splitting job
- Using emergency in absence of real one
- Inappropriate use of sole source
 - Restrictive specifications
 - Pre-qualifying in discriminatory manner
- Withholding information
- Collusion
- Kickbacks
- Low balling followed by change orders
- Substitution of products



The Audit – Legal and Regulatory Environment

RCW

- Establishes State Auditor as elected official
- Requires financial and compliance audits by State Auditor's Office ("SAO")
- Requires Auditor to prescribe uniform system of accounting and reporting
- Performance Audits mandated by I-900

AICPA

- Sets Generally Accepted Auditing Standards
- Recognizes GASB as rule making body for government financial reporting



Types of Audits

Financial

Compliance

Performance

Internal

- Documentation for expenditures
- Cash counts and cash handling practices
- Inventory controls
- Payroll procedures
- Policy compliance (cell phones, procurement cards)

External

- **SAO (Today's Focus)**
- Granting agencies
- IRS
- Other state agencies
 - Retirement
 - Revenue
- Benefit administrators
 - Unions
 - MEBT



Scope of SAO Audit

- Financial audit
 - Financial information
 - Internal controls
- Compliance audit
 - Legislative priorities
 - High risk items
 - RCW compliance
 - Local legislation and policy compliance
- Single audit (Federal grants)
- Complaint driven audit
- Performance audit
- Fraud
- Whistleblower



Audit Tips

- SAO reviews all Council meeting minutes
- Adopt policies and procedures you can adhere to
- Ensure that you adequately resource and train your finance function
- Use SAO website resources
 - Filter report notification (for example, cities/findings)
 - Center for Government Innovation



Thank You!

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Questions?



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