



TO: Elizabeth Pauli, City Manager
FROM: Katie Johnston, Budget Officer, Office of Management and Budget
 Andy Cherullo, Finance Director
COPY: City Council and City Clerk
SUBJECT: Request for Resolution to State a Finding of Substantial Need - November 17, 2020
DATE: October 12, 2020

SUMMARY:

State law requires that the City Council approve a separate resolution to state substantial need in order for cities to levy the full 1% increase in years when the Implicit Price Deflator is less than 1%. The rate of inflator used for 2021 is 0.60152%. Staff recommends that the City Council state substantial need and set the City’s Property Tax and Emergency Medical Services (EMS) levy limit factors for 2021 at 1%.

STRATEGIC POLICY PRIORITY:

- Strengthen and maintain a strong fiscal management position

BACKGROUND:

Jurisdictions with populations of 10,000 or greater are limited to increasing the City’s levy by the lower of 1% or the rate of inflation. The Implicit Price Deflator for Personal Consumption Expenditures is an indicator of the average increase in prices for all personal consumption and is used as an indicator of the rate of inflation. The Implicit Price Deflator used for the 2021 property tax and EMS levies is 0.60152%. Therefore, the City’s limit factor for 2021 is 0.60152%. This is only the third time since 2007 that the implicit price deflator (the rate of inflation) has fallen below 1%.

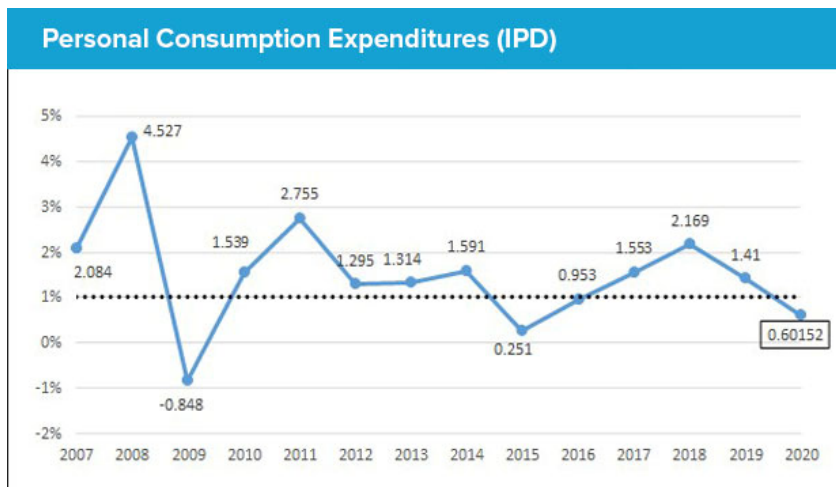


Figure 1 Implicit Price Deflator for Personal Consumption Expenditures, Bureau of Economic Analysis, [MRSC](#)

RCW 84.55.0101 states that with a finding of substantial need jurisdictions may set a limit factor of up to 1%. The finding of substantial need must be approved by a majority plus one of council members.

ISSUE:

The City anticipated receiving the 1% growth when developing the budget and planning for 2021 levels of service. Given the impacts of the COVID-19 emergency on revenue projections for 2021-2022, staff recommends that the City declare substantial need. Setting the City’s limit factor for property tax and



EMS levies in 2021 at 1% will help maintain service levels and meet the City's long-term fiscal sustainability goals.

ALTERNATIVES:

If the City of Tacoma does not declare substantial need, the City will receive approximately \$267,426 less in General Fund revenues, and \$45,338 less in EMS revenues in 2021 than with a 1% increase. The 2021 levy is then used as a base for future years to calculate the City's maximum levy, resulting in a cumulative loss of the ability to collect approximately \$600,000 in General Fund revenues and \$91,000 in EMS revenues in 2021-2022.

RECOMMENDATION:

Staff recommends that the City Council state substantial need and set the City's Property Tax and EMS levy limit factor for 2021 at 1%.

FISCAL IMPACT:

By stating substantial need and setting the City's Property Tax and EMS levy limit factor for 2021 at 1%, the city anticipates collecting revenues similar to the amount in the 2019-2020 Budget.