



**TO:** Elizabeth Pauli, City Manager  
**FROM:** Danielle Larson, Tax & License Division Manager  
**COPY:** Government Performance & Finance Committee; D’Angelo Baker, Management Fellow  
**PRESENTER:** Andy Cherullo, Finance Director; Danielle Larson, Tax & License Division Manager, Finance Department; Alex Yoon, TPU Deputy Director  
**SUBJECT:** Proposed Changes to Deductions from the Gross Earnings Tax (GET) on Public Utilities (TMC Chapter 6A.100.040)  
**DATE:** October 1, 2024

**PRESENTATION TYPE:**  
Request for Ordinance

**SUMMARY:**  
The presentation will provide an overview of the Gross Earnings Tax on public utilities, current deductions from gross earnings and recommendations for changes. The proposed changes will have an impact on the 2025-2026 biennial budget.

**BACKGROUND:**  
The City is legally authorized and does impose a Gross Earnings Tax (GET) on the City’s public utilities - Water, Power, Rail, Stormwater, Wastewater, and Solid Waste. “Gross Earnings” is defined very broadly to:

[I]include the consideration, whether money, credits, rights, or property expressed in terms of money proceeding or accruing by reason of the transaction of business and includes gross proceeds of sales, compensation for rendition of services, gains realized from interest, rents, royalties, fees, commissions, dividends, and other emoluments, however designated, all without any deduction on account of cost of property sold, materials used, labor, interest, losses, discount, and any other expense whatsoever.

The City may allow for deductions from GET. There are currently 16 deductions listed in Tacoma Municipal Code (TMC) 6A.100.040.

**ISSUES:**  
There are several proposed amendments to the deductions in TMC 6A.100.040 summarized below:

**Remove Deductions that are no longer actively used**  
There are several deductions currently in TMC 6A.100.040 for which no activity has been recorded for many years. Staff would recommend eliminating these deductions. The fiscal impact of these proposed changes would be \$0.

**Removal of the Deduction for Contributions in Aid of Construction (CIAC)**  
Typical examples of CIAC are:



- A developer asks Water to put in a water connection for a new development. Water bills the developer for the cost and the developer pays. The money received by Water is deducted from gross earnings and not assessed the GET tax.
- A developer puts in underground power and a transformer pursuant to Power specifications, then turns these assets over to Power. The value of this new asset is deducted from gross earnings and not assessed the GET tax.

Removing this deduction would generate approximately \$1.7M per year to the General Fund. All six utilities would pay a portion of this, with Water, Power and Stormwater paying larger portions. Utilities will pass this cost onto developers and other rate payers.

**Amend Deduction for the Interdepartmental Rent Deduction**

Currently, the deduction only applies to the City’s Power utility. Staff recommends extending this deduction to include Environmental Services (ES). ES has the Urban Waters Building for which they charge rent to other City departments as well as outside entities. This would cost the General Fund approximately \$100K per year.

**Add a Deduction for Customer Excise Tax Collected**

This would clarify that the Solid Waste customer excise tax outlined in 6B.130 which is collected by the Solid Waste Management on behalf of the City is not taxable.

**Application of GET on Grants**

Currently, there is no deduction from gross earnings for grants in 6A.100.040, however, staff discovered that GET has not been paid on grants. Staff will be seeking guidance from City Council on whether to create a deduction for grants or to begin collecting GET on grant revenues. Utilities is recommending creating a deduction for grants.

**Other Related Changes**

- **Lookback period** – Tax & License staff routinely perform audits on tax payers to ensure they are paying the appropriate amount of taxes. When issues are discovered, the TMC allows the City to charge taxes on the current year and the four previous years (look-back period). If the City owes a refund to a taxpayer, it covers the current year and two previous years. Staff is recommending equalizing these lookback periods to four years on both taxes owed and refunds. The fiscal impact to this proposal is indeterminate.
- **Changes to other TMC chapters (private utilities)**  
Staff recommends making changes to other sections of the code to ensure parity between public and private utilities.

**ALTERNATIVES:**

The City Council could leave the current TMC as is and make no changes or propose alternative changes.

**FISCAL IMPACT:**

- Removing the deduction for Contributions in Aid of Construction which would generate approximately \$1.7M per year in revenue for the General Fund.



- Amending the deduction for Interdepartmental Rent to include Environmental Services which would cost the General Fund approximately \$100K per year.
- Adding a deduction for grants is estimated to be approximately \$400K - \$500K per year in forgone revenue collections.

**RECOMMENDATION:**

Staff recommends that the Government Performance & Finance Committee move the proposed changes to City Council for consideration and adoption.