



**TO:** T.C. Broadnax, City Manager  
**FROM:** Tadd Wille, Budget Director  
 Andy Cherullo, Finance Director  
**COPY:** City Council and City Clerk  
**SUBJECT:** Request for Resolution to State a Finding of Substantial Need on November 8, 2016  
**DATE:** October 18, 2016

**SUMMARY:**

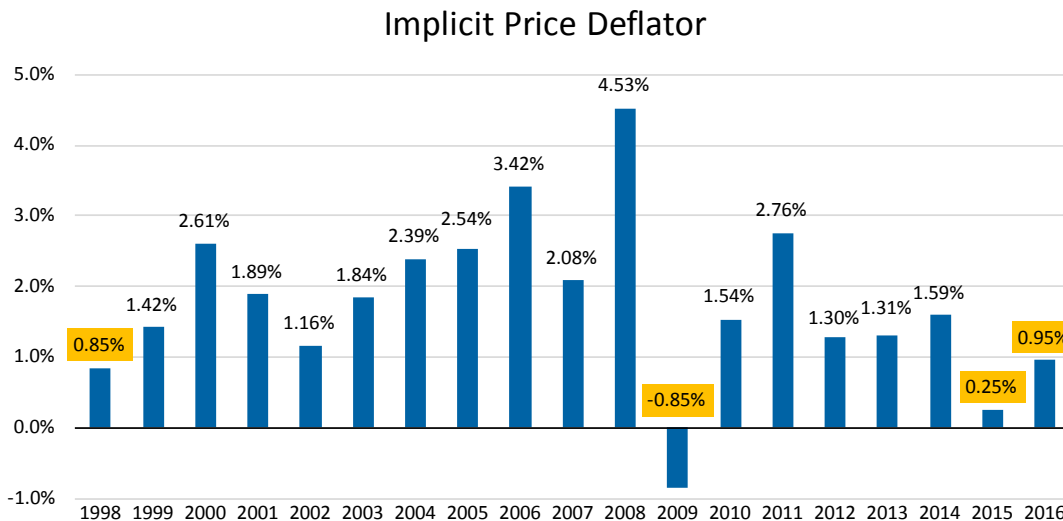
State law requires that the City Council approve a separate resolution to state substantial need in order for cities to levy the full 1% increase in years when the Implicit Price Deflator is less than 1%. The rate of inflator used for 2017 is 0.953%. Staff recommends that the City Council state substantial need and set the City’s limit factor for 2017 at 1%.

**STRATEGIC POLICY PRIORITY:**

- Encourage and promote an efficient and effective government, which is fiscally sustainable and guided by engaged residents.

**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 used as an indicator of the rate of inflation and is calculated as the average increase in prices for all personal consumption. The Implicit Price Deflator used for the 2017 property tax levy and EMS levy is 0.953%. Therefore, the City’s limit factor for 2017 is 0.953%. This is the fourth time since 1998 and the second year in a row 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**

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 2017 levels of service. In order to maintain service levels and meet the City’s long term fiscal sustainability goals, staff recommends that the City declares substantial need and set the City’s limit factor for 2017 at 1% for both the regular property tax levy and Emergency Medical Services levy.

**ALTERNATIVES:**

If the City of Tacoma does not declare substantial need, the City will receive approximately \$28,021 less in property tax revenues and \$4,755 less in EMS tax revenues in 2017 than with a 1% increase. The 2017 levy is then used as a base for future years as the City’s maximum levy; therefore, a 0.953% increase rather than 1% will result in a cumulative loss of \$65,880 in revenues in 2017-2018. The City also has the opportunity to levy less than a 1% increase and/or “bank” the capacity between what the City chooses to assess in 2017 and the 1% increase. By banking levy capacity, the City loses the opportunity to collect the full tax amount in the year in which they bank. The “banked” capacity could then be approved for use by the City Council in a future year. However, the “banked capacity” would apply to that year’s levy and not result in retroactive property tax revenues.

**RECOMMENDATION:**

Staff recommends that the City Council state substantial need and set the City’s limit factor for 2017 at 1% for both general and EMS property tax levies.

**FISCAL IMPACT:**

By stating substantial need and setting the City’s limit factor for 2017 at 1%, the City anticipates collecting revenues in line with the revenues included in the 2017-2018 Budget.