



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 17, 2015
DATE: October 28, 2015

SUMMARY:

State law requires that City Council approve a separate resolution to establish a substantial need in years when the implicit price deflator is less than 1% in order for the City to collect the full 1% increase for collection of 2016 property taxes. The implicit price deflator used for 2016 is 0.251%. Staff recommends that the City Council state substantial need and set the City's limit factor for 2016 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 2016 property tax levy is 0.251%. Therefore, the City's limit factor for 2016 is 0.251%. This is only the third time since 1998 that the implicit price deflator (the rate of inflation) has fallen below 1%.

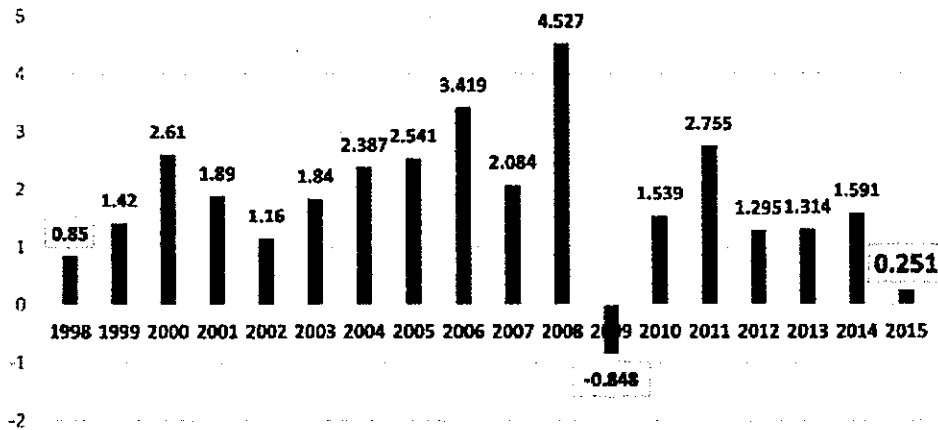


Figure 1 Implicit Price Deflator for Personal Consumption Expenditures, Bureau of Economic Analysis, MRSC

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 2016 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 2016 at 1%.



ALTERNATIVES:

If the City of Tacoma does not declare substantial need, the City will receive approximately \$400,000 less in revenues in 2016 than with a 1% increase. The 2016 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 \$800,000 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 2016 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 can then apply to a future property tax levy.

RECOMMENDATION:

Staff recommends that the City Council state substantial need and set the City's limit factor for 2016 at 1%.

FISCAL IMPACT:

By stating substantial need and setting the City's limit factor for 2016 at 1%, the city anticipates collecting revenues similar to the amount in the 2015-2016 Budget.