City of Tacoma **City Council Action Memorandum**

TO: **Elizabeth Pauli, City Manager**
FROM: **Danielle Larson, Tax & License Manager, Finance Department**
Andy Cherullo, Finance Director
COPY: **City Council and City Clerk**
SUBJECT: **Ordinance – Amending Chapter 6A.100 – Public Utilities Gross Earnings Tax Deductions - December 10, 2024**
DATE: **November 21, 2024**

SUMMARY AND PURPOSE:

An ordinance amending Chapter 6A.100 of the Municipal Code, related to Public Utilities Gross Earnings Tax, by amending the deduction section to add a deduction for grants; expand the deduction for interdepartmental rent to include all utilities; repeal tax deductions for Contributions In Aid of Construction (CIAC), interest earned from bond proceeds, and the sale of property; remove deductions no longer utilized; update the tax deduction for hauling recyclable materials to a tiered structure; and clarify language.

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 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 TMC 6A.100.040. In a review of the current deductions listed in code, it was determined that many of the deductions were outdated or not currently being used. These deductions are recommended to be removed, expanded, or clarified.

In addition, there have been staff discussions with City-owned Utilities for the past several years related to grant revenues. There is not currently a deduction listed in 6A.100.040 for grants. It was determined that the best path forward was to seek clarity from City Council on adding a new deduction for grants.

Tacoma's City Charter states that tax on public and private utilities should not be disproportionate. A new tiered tax deduction linked to a Recycling Rate calculated as outlined in Title 12 for businesses hauling solid waste is being added to Chapter 6A.50 effective January 1, 2025 which requires the same tiered tax deduction be added to 6A.100.

Finally, it is recommended to repeal the tax deductions for CIAC – assets and/or cash given to City owned Utilities for utility projects, the sale of property and interest earned from the proceeds of the sale of bonds. This recommendation would mean that City-owned Utilities will begin remitting GET on these activities effective January 1, 2025.

The Government Performance & Finance Committee voted unanimously on November 19, 2024, to move this proposal forward to the full City Council.

COMMUNITY ENGAGEMENT/ CUSTOMER RESEARCH:

Conversations between Tax & License staff and staff from the various City-owned Utilities have been occurring for the past several years related to the tax treatment of grants and other issues related to GET.

2025 STRATEGIC PRIORITIES:

Equity and Accessibility:
Review of the Tax & License code on regular intervals allows staff to use equity and bias training to review the code through an equity lens. While many sections pertain to requirements on businesses and administrative functions, reviewing these through an equity lens allows for removal or changes to code language that would impact the City's equity and anti-racist efforts.

Economy/Workforce: *Equity Index Score*: Moderate Opportunity
Increase positive public perception related to the Tacoma economy.

Livability: *Equity Index Score*: Moderate Opportunity
Increase positive public perception of safety and overall quality of life.

Explain how your legislation will affect the selected indicator(s).
Gross Earnings Taxes (GET) go directly into the General Fund and support police and fire services, street repair & maintenance, libraries, and many other programs that support the community.

ALTERNATIVES:

Alternative(s)	Positive Impact(s)	Negative Impact(s)
Retain the current deductions.	City-owned utilities would not remit GET on CIAC, property sales or interest on bonds, however, they would start to remit GET on grants.	General Fund revenues included in the proposed 2025-2026 budget would fall short of expected amounts.
Only remove/add some of the deductions.	It would depend on which deductions were added and/or removed.	General Fund revenues included in the proposed 2025-2026 budget could fall short of expected amounts.

STAFF/SPONSOR RECOMMENDATION:

Staff recommends City Council pass the ordinance amending Chapter 6A.100 of the Municipal Code, related to Public Utilities Gross Earnings Tax, by amending the deduction section to add a deduction for grants; expand the deduction for interdepartmental rent to include all utilities; repeal tax deductions for Contributions In Aid of Construction (CIAC), interest earned from bond proceeds, and the sale of property; remove deductions no longer utilized; update the tax deduction for hauling recyclable materials to a tiered structure; and clarify language.

FISCAL IMPACT:
The estimated annual revenue to the General Fund is expected to be approximately an additional $1.875M per year.

Fund Number & Name	COST OBJECT (CC/WBS/ORDER)	Cost Element	Total Amount
0010 General Fund	652000		$1.875M
TOTAL			

What Funding is being used to support the expense?
Gross Earnings Tax goes directly into the General Fund and supports police and fire services, street repair & maintenance, libraries, and many other programs that support the community.

Are the expenditures and revenues planned and budgeted in this biennium's current budget?
YES

Are there financial costs or other impacts of not implementing the legislation?
NO

Will the legislation have an ongoing/recurring fiscal impact?
YES

Will the legislation change the City's FTE/personnel counts?
NO