2019 ~~1944~~ BUDGET SUGGESTIONS

Celebrating Our 75th Anniversary Edition

MRSC

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Introduction

Welcome to MRSC's 2019 Budget Suggestions publication! As always, we try to provide you with timely and relevant information to help you develop your budget document, within the constraints we face in obtaining the information from the various federal and state agencies. This is a big budget year for local government, as both annual and biennial budgets are being adopted. Remember that the statutory requirements are absolute minimums, and starting your budget process early is key.

We are proud to say that this is the 75th edition of Budget Suggestions! This publication was first published for the 1944 budget year by our predecessor organization, the Bureau of Government Research at the University of Washington (in conjunction with AWC), and since 1970 it has been published under the MRSC name. Be sure and read the "Looking Back in Time: 1944 Budget Suggestions" article for a brief glimpse into what was happening in our state 75 years ago.

Over the years, Budget Suggestions has become an annual summer tradition, a trademark publication that we are proud to produce for local governments. In this anniversary year, we hope to exceed your expectations, and we hope to continue producing this popular budget tool for another 25 years to make it a nice round 100!

Over the past few years we have greatly expanded the budget information available on the MRSC website. Throughout the publication, you will see links to our website for tips, suggestions, and budgeting information. Many of the basic budget concepts and procedures remain unchanged from year to year – such as information on fund types and statutory (RCW) requirements – so we have moved most of that information from Budget Suggestions to our website. This publication now focuses primarily on forecasting of state shared revenues, economic indicators, and state legislation that may impact your budget forecast and development.

In addition, we're expanding our use of technology to explain and simplify the budget process. Two years ago we developed the State Shared Revenue Estimator, which allows you to select your entity's name and automatically populate your per capita state shared revenue projections for the upcoming year. Last year we launched an Outlook calendar for cities that allows you to download the key dates for the budget process – including RCW links, required procedures, helpful tips, and links to our website and other useful resources – directly to your Outlook calendar. For those new to the budget process, we hope it was and will continue to be an invaluable tool.

We continue to focus on Financial Management Policies. Adopting financial policies for fiscal areas such as fund balance, reserves, asset and debt management, cost allocation, and purchasing are all key components of a fiscally healthy entity. An annual review and update of your financial policies should be a part of your pre-budget process to ensure that they are still relevant and meet your jurisdiction's objectives.

You can view all of these resources and more at mrsc.org/budgeting.

Budget Suggestions is a team effort. Toni Nelson, our Finance Consultant, is the primary author of this publication. Steve Hawley, Senior Communications Coordinator, edited the publication and wrote the chapter on 1944 Budget Suggestions. Marissa Roesijadi, Graphic Designer, designed and assembled the final publication.

If you have any comments about this publication or our online budget resources, we'd love to hear them! Please send your comments to Toni Nelson at tnelson@mrsc.org.

Happy budgeting!

Looking Back in Time

MRSC has served local governments in Washington since 1934 – almost 85 years! – and we are proud to say that this is the 75th anniversary of Budget Suggestions.

The very first Budget Suggestions was published on August 3, 1943, providing guidance for the 1944 budget year, and focused just on cities. World War II was raging, and D-Day was still another 10 months away, but the tide had begun to turn in favor of the Allies.

Back then, MRSC was known as the University of Washington Bureau of Governmental Research (BGR), and our work was closely intertwined with the Association of Washington Cities (AWC), which had been formed around the same time. So close, in fact, that we shared staff members, supplies, the same office on the UW campus in Seattle – and even, until just a few years earlier, the same director (Chester Biesen, the author of 1944 Budget Suggestions).[1]

In 1943, the most recent census showed Washington's population was just 1.7 million – less than a quarter of the current 7.3 million. Commercial aviation was in its infancy, and the Port of Seattle had just begun construction on a new Seattle-Tacoma Airport. Redmond – now home to Microsoft – was a small farming community of just 530 people.

Richland, another farming town, had less than 300 residents – that is, until the Army moved in a few months before Budget Suggestions was published and quietly seized the area. Property owners were paid appraised

1 Twenty-Five Years of Governmental Research and Service: A History of the Bureau of Governmental Research and Services at the University of Washington. Seattle: University of Washington Press, 1959.

value and given a month to leave, although some farmers were allowed to stay until their crops were harvested. The federal government razed the town and built the Hanford site, which produced plutonium for the atomic bombs that would be dropped two years later on Japan. (The Town of Richland was formally disincorporated in 1948, only to be reincorporated 10 years later, once federal ownership ended, as the much larger City of Richland that we know today.)

Meanwhile, almost 13,000 state residents of Japanese heritage – most of them American citizens – had been forcibly removed to "internment camps" further inland over unfounded and racially-driven national security fears. The first displacements took place on Bainbridge Island, which now has a memorial to the event. (According to the memorial's website, local newspapers such as *The Bainbridge Review* opposed the internment and spoke out in support of the Japanese immigrants and their descendants.) Families had just days to leave, and many had to sell their properties and possessions at a fraction of their value. They were then imprisoned for more than three years until the war's end, but not a single person was ever charged.

All this time, BGR and AWC were producing a number of publications on wartime topics such as civil defense, local blackout ordinances, and the newly implemented Victory Tax (a 5% federal payroll tax on all employees), as well as advising cities to prepare a backlog of public works projects to help cushion against the expected post-war economic shock when soldiers returned home and war manufacturing shut down.

But amid all this turmoil, local governments still had to provide basic services, too. BGR and AWC also wrote about more mundane topics such as livestock control, sick leave, reserve funds, financial statistics, and garbage collection. (All of those topics, incidentally, can be found on the MRSC website to this very day – in a much more modern context, of course.)

And local governments still had to develop their annual budgets. Well, maybe not Richland… but everyone else had to adopt an annual budget. (Biennial budgets wouldn't be authorized until 1985 for cities and 1995 for counties.)

And that's where Budget Suggestions came in. Here are some of the tips BGR and AWC provided to city officials to help them develop their 1944 budgets:

> Encourage department heads to make as many war-time economies as possible.
>
> Study legislative program of the Association of Washington Cities--note new revenues not hitherto available made possible by the 1943 Legislature.
>
> When the opportunity affords, let your state legislators and Governor know you appreciate the attention given the problems of local government at the 1943 legislative session. Without their help the present favorable financial position of municipalities would not have been possible.
>
> Refrain from reducing taxes. Get out of debt--place finances on a cash basis--economize-- transfer all possible surpluses to cumulative reserve funds to be used for post-war employment and public improvements. Reducing taxes during the war emergency is a direct contribution to inflation.

Prohibition had ended a decade earlier, and "wet" cities were receiving a share of the profits and tax revenues. Liquor revenues were difficult to forecast due to wartime rationing, which reduced sales and profits, but an extra 10% war tax on liquor was expected to more than make up the difference.

> "We have based the following estimates in our 1942 business, figuring what our profits will be if we have 58% as much liquor to sell in 1944 as we had in 1942. The reduction of liquor sales will lower our profits approximately $3,300,000 but with other revenue (beer tax, wine tax, license fees, etc.) remaining the same, the Board will have $5,800,000 to distribute in the calendar year 1944, which is 82% of what the cities received in 1942. The new 10% war tax will yield an additional $2,240,000 which is 31 per cent of the 1942 Liquor Board distributions. On this basis each city will receive from Liquor Board profits and from the new 10% war tax 113% of the amount received in 1942. Of course, you understand that each month we pay this war liquor tax into the State Treasury, but, according to law, it is only distributed by the State Treasurer once every six months.

Per capita revenue distributions were based on the last federal census, which meant the population figures were only updated every 10 years, plus periodic adjustments to account for cities newly incorporated since the last census.

> Distribution is made monthly by the State Treasurer on the basis of the last Federal census, provided, cities incorporated thereafter are to be included, using their incorporation figure as official population.

But that was about to change. The 1940 Census numbers were already outdated – in just three years, there had been a massive influx of soldiers, sailors, wartime manufacturing workers, and their accompanying families that stressed housing markets and stretched public services, particularly in places like Tacoma and Bremerton.

To help address these challenges, AWC had successfully lobbied during the 1943 legislative session for a new special war appropriation to cities. The state allocated $1 million per year—approximately $14.4 million in today's dollars—with half distributed to all cities on a per capita census basis and half going to "war center" cities that had experienced at least 3% population growth since the 1940 Census.

> 5. SPECIAL STATE APPROPRIATIONS FOR WAR EMERGENCY
>
> a. $500,000 is distributed on basis of 1940 census, including newly incorporated cities (1,059,414), or about 47¢ per capita. Distribution of this appropriation made in accordance with Chapter 81, Laws of 1943 on January 1, 1944 (or before). Moneys to be placed in a special "state aid fund" to be used only for police and fire protection, health and sanitation, libraries, parks, and civilian defense.
>
> b. $500,000 to war center cities, or municipalities having an increase of more than 3% in population since 1940. Distribution, as provided by Chapter 81, Laws of 1943, is made on basis of increase in population as determined by special census board estimates, newly incorporated cities to be included. Two payments to be made in 1944--(1) April 1 and (2) October 1. Place moneys in "state aid fund" and use only for police and fire protection, health and sanitation, libraries, parks, and civilian defense.

In order to measure this post-census population growth, the legislature created a new three-person Washington State Census Board at the University of Washington, comprised of one appointee from UW, one from Washington

State College (now WSU), and one from the State Planning Council (abolished in 1945 and incorporated into what eventually became the Department of Commerce). The Census Board relied heavily on data like school enrollment, vital statistics (births, marriages, and deaths), utility hookups, housing stock, payroll data, and ration books to create population ratios and generate quick and inexpensive population estimates every six months.[2]

In doing so, Washington became the first state in the country to introduce post-census population estimates. In 1945, the state began distributing all shared revenues based on post-census estimates made by the Census Board. The Census Board remained in existence until 1967, when its functions were transferred to the state and eventually to the current Office of Financial Management.

Cities were still classified as first, second, third, or fourth class – the Optional Municipal Code wouldn't take effect until 1969 – and all city budgets had to be adopted by early October, not the current deadline of December 31.

> 5. October--first Monday: Council conducts public hearing on budget for period not to exceed five days--upon completion of hearing fix and determine each item of budget and adopt by ordinance Transmit copy of budget to Division of Municipal Corporations. By ordinance fix amount of tax levies and certify them to county commissioner.

Complicating matters, there was no uniform statutory code. Instead, local officials had to rely on one of two codes compiled by different individuals – either Pierce's Code or Remington's Revised Statutes. The legislature had declared both codes to be official, but they used very different numbering systems, which made statutory citations rather complicated.[3] 1944 Budget Suggestions included the Pierce's Code budget laws in the appendix. The Revised Code of Washington (RCW) was finally adopted in 1950, simplifying legal citations.

> **BUDGET SYSTEM**
>
> **Pierce's Code 890-1 to 890-12**
>
> AN ACT providing for a budget system for making and controlling estimates, tax levies and expenditures in cities of the first class having a population of less then three hundred thousand, and in cities and towns of the second and third classes, and providing penalties for the violation thereof. Approved March 20, 1923. L'23c158.

After the original 1944 Budget Suggestions, there was a three-year gap. The next Budget Suggestions wouldn't be published until 1947 (providing guidance for the 1948 budget year), but we've been publishing it every summer since then.

It's interesting to look back at 1944 Budget Suggestions and think about how different things were and how much has changed since then. But some things are still the same, such as MRSC's steadfast support of local governments throughout the state. We look forward to serving you and helping you develop your budgets for another 75 years!

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2 Swanson, David A. The Washington State Census Board and Its Demographic Legacy. Cham, Switzerland: Springer International Publishing, 2016.

3 Kunsch, Kelly. "Statutory Compilations of Washington." University of Puget Sound Law Review 12, no. 2 (1989): 285-308.

Want to read the entire 1944 Budget Suggestions document?

We've posted it to our website! The document contains six pages of suggestions, plus an appendix listing the complete city budgeting laws in effect at the time. Read 1944 Budget Suggestions

The Budget Process

2019 Budget Calendar for Cities and Towns

The annual budget preparation procedures and deadlines for cities are found in chapter 35A.33 RCW (code cities) and chapter 35.33 RCW (all other cities and towns except Seattle) and outlined below. The procedures and deadlines are the same for biennial budgets, although the statutory citations are different (see page 8).

The pre-budget items listed below are recommendations only and are not required by statute. The rest of the items are statutory deadlines only – cities and towns can take these steps earlier than listed or adopt different deadlines for some of these steps by ordinance or charter. For more information on public hearing requirements, see page 10.

We recommend that each city and town develop a timeline that best meets its needs, assures compliance with the statutes, and provides sufficient time to prepare this vital plan.

For recent examples of budget preparation calendars created by cities and towns, as well as a downloadable calendar that will load all of this information directly into your Outlook calendar, see our webpage 2019 Budget Calendar for Cities and Towns.

For a detailed explanation of the budget requirements, as well as some helpful practice tips, see our webpage Budget Preparation Procedures for Cities and Towns.

March—August	**Pre-Budget Items** Council retreat Update and/or adopt financial policies Public hearings for capital facility plan updates Public forums or community outreach (ex: community priorities) Mayor/Manager communicates budget objectives to staff
September	**Sept 10** Budget request to all department heads. **Sept 10–23** Department heads prepare estimates of revenues and expenditures. Clerk prepares estimates for debt service and all other estimates. **Sept 24** Budget estimates from department heads filed with clerk **Sept 25** Implicit price deflator calculated (only applies to cities of 10,000+ population)
October	**Oct 1** Clerk provides estimates filed by department heads to Mayor/Manager showing complete financial program. Mayor/Manager provides Council with estimates of revenues from all sources including estimates prepared by clerk for consideration of setting property tax levy. **Mid-October to Mid-November (suggested)** Public hearing on revenue sources including possible increases in property tax.
November	**Nov 2** Mayor/Manager prepares preliminary budget and budget message. Files with clerk and council. **Nov 2–20** Publication notice of preliminary budget and final hearing. **Nov 2–29** Public hearing(s) on preliminary budget. Public hearing on revenue sources for levy setting. **Nov 19** Copies of budget available to public **Nov 30** Property tax levies set by ordinance and filed with the County
December	**Dec 3** Final budget hearing **Dec 31** Budget adoption

2019 Budget Calendar for Counties

The budget preparation procedures and deadlines for counties are found in chapter 36.40 RCW and outlined below. The procedures and requirements are the same for both annual and biennial budgets, although biennial budgets have an additional mid-biennium review and adjustment period as discussed on page 9.

The pre-budget items listed below are included as recommendations only and are not required by statute. The rest of the items are statutory deadlines only; the board of commissioners may alter the dates for some of these budget processes to conform to the optional alternative preliminary budget hearing date in December (RCW 36.40.071).

Many counties have adopted alternative dates, and we recommend that each county develop a timeline that best meets its needs, assures compliance with the statutes, and provides sufficient time to prepare this vital financial plan.

For more information on public hearing requirements, see page 11.

For recent examples of budget preparation calendars created by counties, see our webpage 2019 Budget Calendar for Counties. For a detailed explanation of the budget requirements, as well as some helpful practice tips, see our webpage Budget Preparation Procedures for Counties.

March—June	**Pre-Budget Items** Strategic planning sessions to develop goals and priorities Update and/or adopt financial policies Public hearings for capital facility plan updates for GMA planning counties Capital improvement plan updates for partially planning GMA counties Communicate budget objectives to county departments and elected offices
July	**July 9*** County auditor or chief financial officer (CFO) notifies all officials of the request for budget
August	**Before Aug 13*** Auditor or CFO prepares estimates for debt service and all other estimates not called for in the notification to officials. **Aug 13*** Budget estimates from all officials filed with auditor or CFO.
September	**Sept 4*** Preliminary county budget prepared by auditor or CFO is submitted to the commissioners. **Sept 17*** Notice of public hearing on budget and tax levies. Copies of budget available to the public. **Sept 25** Implicit price deflator calculated (only applies to counties of 10,000+ population)
October/ November	**Oct 1*** Final budget hearing by board of commissioners. **Nov 30** County legislative authority to certify to the county assessor the amount of taxes to be levied upon property in the county.
December	**Dec 3** Alternate final budget hearing on preliminary budget. **Dec 31** Budget adoption

** Dates may be altered if County is using alternate budget calendar*

Biennial Budgets

CITIES AND TOWNS

Any cities and towns may begin budgeting on a biennial (two-year) basis if desired (see Ch. 35A.34 RCW for code cities and Ch. 35.34 RCW for all other cities and towns). By statute, the biennial fiscal period must start on January 1 of an odd-numbered year and end on December 31 of the following even-numbered year.

The next biennial budget period is 2019-2020, which means all cities and towns that budget on a biennial basis will be preparing their budget this year.

The calendar for developing a biennial budget is identical to the annual budget calendar shown on page 6. In addition, the city or town must review and modify the budget by ordinance sometime between September 1 and December 31, 2019 (RCW 35.34.130/RCW 35A.34.130).

Any city or town that currently budgets on an annual basis and wants to switch to a biennial budget process must pass an ordinance to that effect no later than June 30 of the preceding even-numbered year, six months before the beginning of the fiscal biennium (RCW 35A.34.040/RCW 35.34.040). **Any city wishing to switch to a biennial process that did not adopt an ordinance by June 30, 2018, may not begin budgeting on a biennial basis until the 2021-2022 biennium at the earliest.**

Any city or town may also revert from a biennial budget process to an annual budget process by repealing the ordinance that established the biennial process (RCW 35A.34.040/RCW 35.34.040). The repeal must take effect at the end of a fiscal biennium; cities and towns may not abandon the biennial budget process halfway through the biennium. During the final (even-numbered) year of the biennium, the city or town would then prepare and adopt an annual budget to take effect January 1 of the following (odd-numbered) year.

For more information, including a list of cities and towns using a biennial budget process, examples of resolutions adopting or abandoning a biennial budget process, and examples of biennial budget preparation calendars, see our webpage on Biennial Budgeting.

For information on public hearing requirements, see pages 10 and 12.

Mid-Biennium Review and Adjustment Dates for Cities and Towns

September 1-December 31, 2019: Mid-biennial review and modification must be completed no sooner than September 1 and no later than December 31. Public hearing and public notice are required and modifications, if any, must be adopted by ordinance. Copies of the mid-biennial review must be transmitted to the State Auditor's Office and MRSC (representative for AWC) after adoption.

November 30, 2019: Deadline for cities/towns using a biennial budget to certify to the county assessor the amount of property taxes to be levied for the second year of the biennium. Any city/town that misses this deadline may not increase its 2020 levy above its 2019 level.

COUNTIES

Any county may adopt a biennial budget (RCW 36.40.250). Unlike cities, counties may start the biennium on January 1 of any year.

The calendar for developing a biennial budget is identical to the annual budget calendar shown on page 7. In addition, each county adopting a biennial budget must provide for a mid-biennial budget review and modification for the second year of the budget cycle. The modification must be adopted by resolution or ordinance. No exact deadline is provided, but in practice the budget should be reviewed and modified by the end of the first year of the biennial budget cycle.

To switch from an annual budget process to a biennial budget process, a county must adopt a resolution or ordinance to that effect. Unlike cities, the county statute gives no indication of when this ordinance or resolution must be passed. Practically speaking, it probably needs to be done no later than April 1 so that the request for budget proposals to county officials and department heads can outline the change and allow sufficient time to prepare the estimates that are due to the auditor in August.

The statute also provides an option for counties to adopt a biennial budget for some funds – with the same mandatory mid-biennium adjustment – and an annual budget for others.

Any county may revert to an annual budget process by repealing the ordinance that established the biennial process. The repeal must take effect at the end of a fiscal biennium; counties may not abandon the biennial budget process halfway through the biennium. During the final year of the biennium, the county would then prepare and adopt an annual budget to take effect January 1 of the following year.

For more information, including a list of counties using a biennial budget process, examples of resolutions adopting or abandoning a biennial budget process, and examples of biennial budget preparation calendars, see our webpage Biennial Budgeting.

For information on public hearing requirements, see pages 11–12.

Mid-Biennium Review and Adjustment Dates for Counties

November 30: Deadline for board of county commissioners to certify to the county assessor the amount of property taxes to be levied for the coming fiscal year, regardless of whether the county is using an annual or biennial budget process. Any county that misses this deadline may not increase its levy above its current level.

December 31: Suggested deadline for mid-biennium review and modification. While RCW 36.40.250 requires a mid-biennium review and modification it does not provide specific deadlines for this procedure but refers the County to the State Auditor for requirements. The State Auditor's office through its publication of BARS for both GAAP and Cash Basis entities does not currently prescribe any specific requirements for this biennial requirement. Our office recommends using the same public hearing and public notice process that is used for a supplemental budget appropriation (RCW 36.40.100)

Budget Hearings

One question we get asked every year is, "How many public hearings are required for the budget process?" So this year, we're addressing the issue here in Budget Suggestions.

CITIES AND TOWNS

By MRSC's analysis, each city or town must hold at least three public hearings during the budget preparation process. The minimum statutory requirements are addressed below, but please note that some cities may have adopted additional public hearing requirements by policy.

Public Hearing #1: Property Taxes/Revenue Sources

Recommended timeline: mid-October to mid-November.

Statutory deadline: Prior to levy certification (no later than November 30). See RCW 84.55.120.

The legislative body must hold a public hearing on revenue sources for the coming year's budget, including consideration of possible increases in property tax revenues, prior to the property tax certification deadline, which is November 30. Public notice is required, but beyond the requirement to publish in the official newspaper of the city/town there are no additional publication requirements stated in statute.

After the hearing, a city/town may choose to pass an ordinance at the same meeting establishing the property tax levy in terms of total dollars and percent increase from the previous year. This ordinance may cover a period up to two years, but in practice most jurisdictions – even biennial budget jurisdictions – hold a revenue hearing every year.

Because of the importance of revenue forecasting as a precursor to presenting a structurally balanced budget, we suggest that the property tax hearing precede the preliminary budget hearing (see below). This would place the property tax hearing sometime between mid-October and mid-November.

Public Hearing #2: Preliminary Budget Hearing

Statutory deadline: Prior to final budget hearing; typically held during November. See RCW 35.33.057/RCW 35A.33.055 (annual budgets) and RCW 35.34.090/RCW 35A.34.090 (biennial budgets).

The legislative body, or a committee thereof, must schedule preliminary budget "hearings on the budget or parts thereof" prior to the final budget hearing, which must be on or before the first Monday in December, and may require the presence of department heads to give information regarding estimates and programs. Public notice is required, but beyond the requirement to publish in the official newspaper of the city/town there are no additional publication requirements stated in statute.

Since the statutory language references "hearings" as plural, it has long been MRSC's opinion that more than one preliminary budget hearing is required. However, since the statute also states that the hearings may be "on the budget or parts thereof," we also conclude that cities and towns may count the property tax/revenue hearing outlined above as one of the required preliminary hearings. This means cities and towns must hold at least one preliminary budget hearing in addition to the property tax/revenue hearing.

Public Hearing #3: Final Budget Hearing

Statutory deadline: Must begin by Monday, December 3, 2018 and conclude no later than Friday, December 7, 2018. See RCW 35.33.071/RCW 35A.33.070 (annual budgets) and RCW 35.34.110/RCW 35A.34.110 (biennial budgets).

The legislative body must conduct a final budget hearing on or before the first Monday in December. The hearing may be continued from day-to-day, but no later than December 7 (the 25th day prior to the next fiscal year).

Notice of the final budget hearing must be published once a week for two consecutive weeks in the official newspaper. See RCW 35.33.061/RCW 35A.33.060 (annual budgets) and RCW 35.34.100/RCW 35A.34.100 (biennial budgets).

COUNTIES

By MRSC's analysis, each county must hold at least two public hearings during the budget process. The minimum statutory requirements are addressed below, but please note that some counties may have adopted additional public hearing requirements by policy.

Public Hearing #1: Property Taxes/Revenue Sources

Statutory deadline: Prior to levy certification (no later than November 30) and prior to final budget hearing. See RCW 36.40.071.

The legislative body must hold a public hearing on revenue sources for the coming year's budget (RCW 84.55.120), including consideration of possible increases in property tax revenues, prior to the property tax certification deadline, which is November 30. Public notice is required, but beyond the requirement to publish in the official newspaper of the county there are no additional requirements stated in statute.

After the hearing, a county may choose to pass an ordinance at the same meeting establishing the property tax levy in terms of total dollars and percent increase from the previous year. This ordinance may cover a period up to two years, but in practice most jurisdictions – even biennial budget jurisdictions – hold a revenue hearing every year.

Public Hearing #2: Final Budget Hearing

Statutory deadline: Must begin on Monday, October 1, 2018 (or Monday, December 3 if county has adopted alternate budget dates pursuant to RCW 36.40.071) and conclude within 5 days. See RCW 36.40.070/RCW 36.40.071.

The legislative body must meet on the first Monday in October, or alternatively the first Monday in December if using the alternate budget dates, for the budget hearing. Notice of the final budget hearing must be published once each week for two consecutive weeks, immediately following adoption of the preliminary budget, in the county's official newspaper (RCW 36.40.060).

Officials in charge of county offices, departments, services, and institutions must appear at the hearing and may, at the appropriate time, be questioned concerning their budget estimates by the commissioners or any taxpayer.

The hearing may be continued from day-to-day but may not exceed a total of five days. Upon conclusion of the hearing, the legislative body must fix and determine each budget item separately and must adopt the budget by resolution.

BUDGET HEARINGS FOR BIENNIAL BUDGET MID-BIENNIUM ADJUSTMENTS

Cities and counties that have adopted a biennial budget process must provide for a mid-biennial budget review and modification (see pages 8–9).

Cites/Towns

By MRSC's analysis, each city or town must hold at least two public hearings for the mid-biennium review and adjustment. Some cities may have adopted additional public hearing requirements by policy.

The biennial budget statutes state that cities "shall provide for public hearings on the proposed budget modification" and "shall provide for publication of notice of hearings consistent with publication of notices for adoption of other city or town ordinances." See RCW 35.34.130/RCW 35A.34.130.

Because "hearings" is plural, it is our interpretation that at least two public hearings are required. However, as with the initial budget development, the property tax/revenue hearing (RCW 84.55.120) can count as one of the hearings. After the revenue hearing, cities must hold at least one additional public hearing on the mid-biennium review and adjustment.

Counties

RCW 36.40.250 provides counties with the authority to adopt a biennial budget and states that there must be a "mid-biennium review and modification for the second year of the biennium." However, the statute goes on to state that "[t]he state auditor shall establish requirements for preparing and adopting the mid-biennium review and modification for the second year of the biennium."

The state auditor provides limited guidance through its BARS manuals for the budget process and there are no additional requirements or guidance for the mid-biennium review. MRSC recommends that those counties with a biennial budget follow the same requirements as outlined above for cities.

PUBLIC HEARINGS FOR BUDGET AMENDMENTS

After the budget is adopted, cities, towns, and counties may amend the budget at any time. It's especially important to monitor budget appropriation levels as local government reaches the end of its budget cycle. Cities, towns, and counties must have sufficient budget appropriations available for all expenditures including open period expenditures. Budget amendments, if any, must be adopted on or before December 31.

Most budget amendments do not require public hearings under state law, although some jurisdictions may have adopted public hearing requirements by policy.

Cities, towns, and counties are not required to hold public hearings on budget amendments related to "nondebatable" emergencies – see RCW 35.33.081/RCW 35A.33.080 (city/town annual budgets), RCW 35.34.140/RCW 35A.34.140 (city/town biennial budgets), and RCW 36.40.180 (counties). Public hearings are also not required for expenditures of unanticipated revenues, transfers within a single fund, or budget reductions. These types of amendments must be made by ordinance but do not require a public hearing.

However, public hearings are required for increasing expenditures for other "public emergencies" that are not considered "nondebatable" – see RCW 35.33.091/RCW 35A.33.090 (city/town annual budgets), RCW 35.34.150/RCW 35A.34.150 (city/town biennial budgets), and RCW 36.40.140 (counties). For cities and towns, the public notice requirements are not specifically outlined in statute. MRSC recommends following the same notice requirements of the preliminary budget hearing. Counties must publish notice of the hearing, as well as a resolution stating the facts of the emergency and the estimated amount of money required to meet it, once in the official county newspaper at least one week before the hearing.

Demographic and Economic Indicators

Population Estimates

Population estimates are of particular importance to cities and counties, as they not only indicate whether the population is growing and how quickly, but they also form the basis for the distribution of many state shared revenues (see page 32).

The Office of Financial Management (OFM) is responsible for determining populations of all cities, towns, and counties every year as of April 1. Those estimates are certified to the secretary of state on or before July 1 and distributed to the state agencies responsible for making allocations or payments to local governments. The updated distribution rates then take effect on January 1 of the following year.

According to OFM's April 1, 2018 population estimates, the state's total population is about 7.43 million, an increase of more than 117,000 people (1.6%) over the past year. While this growth is high by historical standards, it is a little lower than the increase recorded last year.

Most of this increase – almost 84,000 people, or 71% – continues to be driven by migration as more people move into Washington than move out. However, net migration has dropped more than 9% in the past year. The remaining increase – almost 34,000 people, or 29% – is attributable to natural increase (births minus deaths). Natural increase has dropped by about 6% in the past year.

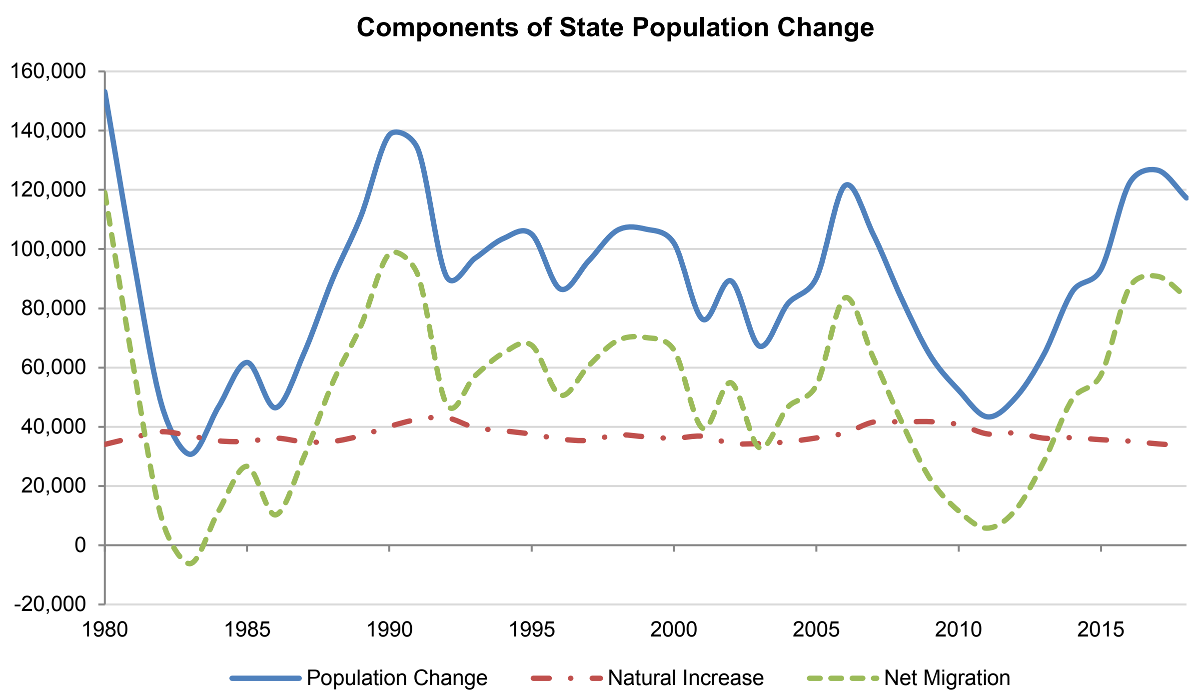


Image credit: Washington State Office of Financial Management

As OFM notes, "population growth remains concentrated in the five largest metropolitan counties – Clark, King, Pierce, Snohomish, and Spokane, [but] momentum has shifted to [other counties]." The five largest counties accounted for 70% of population growth, with other metropolitan counties accounting for 22% and nonmetropolitan counties accounting for 8%.

About 4.83 million people (65%) live in cities and towns, with the remaining 2.59 million (35%) living in unincorporated areas. The majority of the population growth last year was concentrated in cities and towns, which grew by a total of 1.76% compared to growth of 1.31% in unincorporated counties. Annexations accounted for an increase of 6,300 in the incorporated population – largely due to Vancouver's Van Mall North annexation – and a corresponding decrease in the unincorporated population.

To see your jurisdiction's total population and recent changes, refer to OFM's April 1, 2018 population estimates or our Tax and Population Data webpage.

State shared revenue distributions are adjusted quarterly to reflect shifts in population due to annexations that may have taken effect during that time. These numbers are typically small and do not have a significant impact on state shared revenues for most jurisdictions. The more significant impact is on "core revenues" such as property taxes and sales taxes, which will increase for the cities and towns affected and decrease for affected counties. See page 28 for more information on core revenues and page 32 for annexation adjustments applicable to state shared revenues.

Economic Factors

There are several economic factors that, for many, are instinctively incorporated into the budget forecasting process, especially if using judgmental forecasting and/or historical trend analyses. In particular, economic conditions may have an impact on revenue projections, especially in jurisdictions that are heavily dependent upon retail sales tax.

Major components of economic modeling in the budget process include inflation, employment, population growth, and the prevalence or concentration of particular industries within the local jurisdiction.

STATE AND NATIONAL ECONOMIES

The state and national economies are generally regarded to be very strong right now, as noted by the June 2018 Economic and Revenue Update from the Washington State Economic and Revenue Forecast Council (ERFC), but there are major questions and potential economic threats looming that local governments need to keep in mind.

Monthly job growth remains strong and unemployment rates are extremely low. The ERFC report notes that Washington's current unemployment rate is 4.7%, which is approaching the all-time record low of 4.6% set in 2007. However, we should note that local context matters a lot, and the county unemployment rates published by the Employment Security Department ranged from a low of 3.4% to a high of 12.0% as of May 2018. We recommend that you consider your county unemployment rates when using unemployment as a factor for budget projections.

The current economic expansion has now lasted for 9 years under two presidents – the second-longest expansion in recorded American history dating back to the 1850s. (The record is exactly 10 years, from March 1991 to March 2001, and if the current expansion continues we would surpass that mark in July 2019.)

But there are also many clouds gathering on the horizon. Arguably the biggest are the growing trade disputes and tariffs between the United States and most of our major trading partners – including China, Canada, Mexico, and the European Union – that could have a significant negative impact on Washington's export-heavy economy. There are reports that Washington's agriculture industry in particular is already being affected.

Other potential concerns include geopolitical risks with Russia, North Korea, and other countries; rising oil and gas prices; federal immigration debates that could adversely impact agriculture, construction, technology, and other industries; and recent interest rate hikes by the Federal Reserve (with more anticipated), which will increase the cost of borrowing. And of course, there is the fact that historically no economic expansion has ever lasted longer than 10 years.

No one knows how all of these complex and overlapping issues will play out, and ERFC is still forecasting continued economic growth at least through 2020. However, with so much uncertainty, combined with historical trends, local governments should not be surprised if a recession occurs within the next 1-2 years and should consider all of these factors when developing their long-term forecasts.

CONSUMER PRICE INDEX

The Consumer Price Index (CPI) is one of the most widely used measures of inflation, and along with the Implicit Price Deflator (IPD), it is one of the two most frequently watched economic indicators for local governments in Washington State.

The CPI is a measure of the average change in prices paid over time for a fixed "market basket" of goods and services. The CPI reflects the spending patterns of two groups:

- The CPI for **urban consumers (CPI-U)** measures the percentage change in prices faced by urban consumers and represents approximately 93% of the nation's population. It is based on the expenditures of almost all residents of urban or metropolitan areas, including urban wage earners and clerical workers.

- The CPI for **urban wage earners and clerical workers (CPI-W)**, sometimes referred to as the "blue collar measure," is a subset of the CPI-U. Its market basket reflects the expenditures of urban households that derive more than half their income from clerical and hourly wage jobs, covering approximately 29% of the population.

National CPI updates are published every month by the Bureau of Labor Statistics (BLS). BLS also publishes metropolitan indexes for certain areas, including a Seattle index that is published every two months.

However, BLS recommends the use of the national CPI-U or CPI-W indexes for all contract adjustments, due to the fact that the metro indexes are published less frequently and are based on a smaller sample, making them more volatile and subject to measurement error.

None of these indexes measure price changes in rural areas – but realizing that towns and counties in rural areas need some indicator to use, we recommend using one of the national indexes.

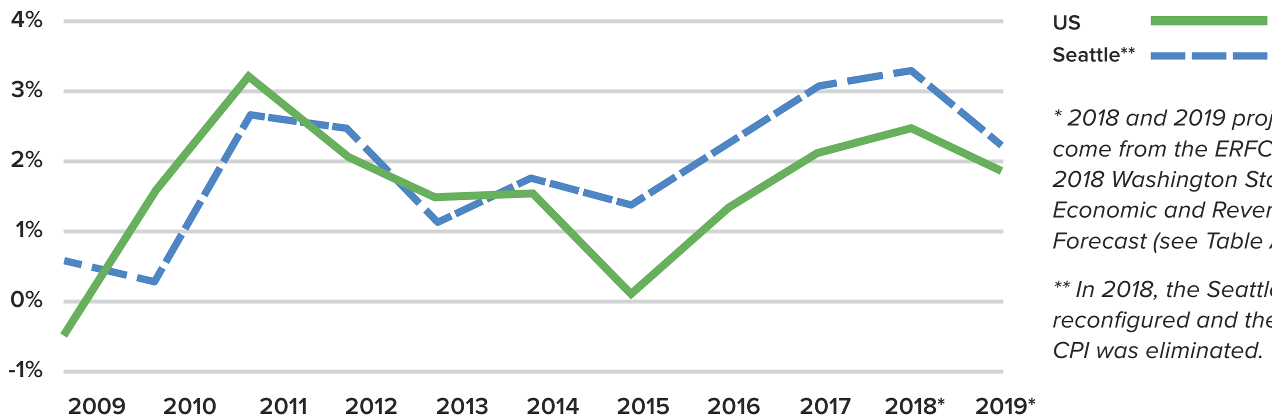
For those jurisdictions that do rely on a metro index, BLS has implemented major geographic changes to the CPI for the first time in 20 years. Effective January 1, 2018, the former Seattle-Tacoma-Bremerton index (which included King, Pierce, Island, Kitsap, and Thurston counties) is now the Seattle-Tacoma-Bellevue index (which has been modified to include only the three largest counties of King, Pierce, and Snohomish counties; Island, Kitsap, and Thurston counties are longer included).

In addition, the Portland-Salem index, which also included Clark County and was used by some local governments in Washington, has been eliminated. Any local government that used the Portland-Salem index for inflation indexing will need to adopt a different index.

The charts on the following page show the annual average change for the CPI-U and CPI-W indexes over the last 10 years. As previously mentioned, BLS does not recommend the use of the metro indexes due to volatility.

For more information, including the most recent data releases, see our Consumer Price Index webpage.

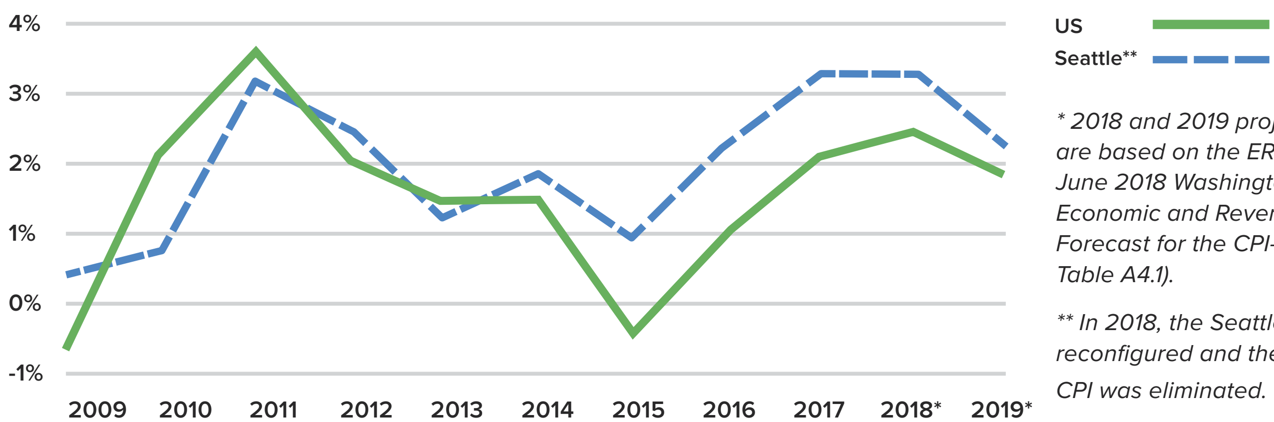
CPI-U Annual (Calendar Year) Change and Projections, 2009–2019



** 2018 and 2019 projections come from the ERFC June 2018 Washington State Economic and Revenue Forecast (see Table A4.1).*

*** In 2018, the Seattle CPI was reconfigured and the Portland CPI was eliminated.*

CPI-W Annual (Calendar Year) Change and Projections, 2009–2019



** 2018 and 2019 projections are based on the ERFC June 2018 Washington State Economic and Revenue Forecast for the CPI-U (see Table A4.1).*

*** In 2018, the Seattle CPI was reconfigured and the Portland CPI was eliminated.*

IMPLICIT PRICE DEFLATOR

The implicit price deflator (IPD) for personal consumption expenditures is the other major inflation index followed by local governments in Washington, and it is primarily of interest to taxing jurisdictions with a population of 10,000 or more.

The IPD is published quarterly by the federal Bureau of Economic Analysis, with monthly estimates, and it became an integral part of the process of setting property tax increases after the passage of Initiative 747 in 2001. Taxing districts with a population of 10,000 or more may increase their total annual levy amount by 1% or the percentage increase of the IPD, whichever is less – which can be a big deal in years when the IPD falls below one percent.

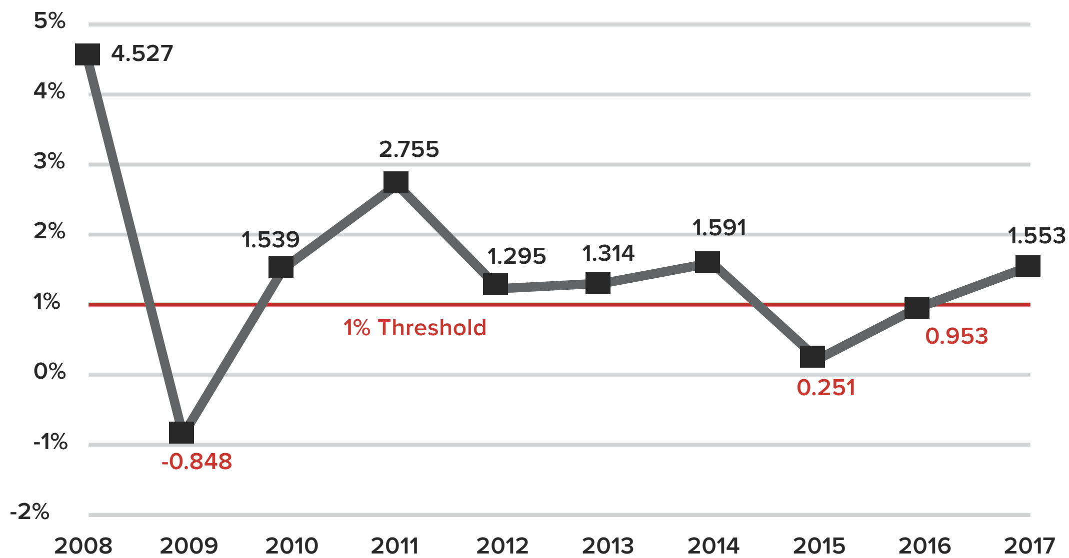
However, if the IPD falls below the one percent cap, a taxing district with a population of 10,000 or more can still increase its levy amount beyond the IPD increase and up to the full 1% if it adopts a resolution or ordinance declaring a "substantial need" to increase the levy above the IPD rate.

Taxing districts with a population under 10,000 are not impacted by the IPD and may increase their total annual levy amount the full 1% regardless of the IPD.

The IPD number used for the property tax levy setting is officially declared by the Department of Revenue (DOR) on September 25 (RCW 84.55.005), and over the past few years the IPD number used has been the first estimate for the second quarter, which is typically the August publication. The September BEA release usually occurs after the September 25 statutory date, but this year the BEA release date is set for the morning of September 25, so the September release will determine the official IPD rate.

The chart below shows the change in the IPD in the past 10 years. The IPD data shown for each year was used to set property tax levies for the subsequent levy year.

IPD Annual (Calendar Year) Change, 2008–2017



The official 2018 IPD calculation for inflation setting will be established on September 25, but based on the numbers for the first three quarters, it will almost certainly exceed 1% this year.

At this time, the IPD appears safely above 1% for 2018, which means cities and counties with a population over 10,000 should be able to increase their 2019 levy amounts the full 1% without having to declare a finding of substantial need. However, each June the BEA conducts an annual update of the data that includes the last three years of quarterly IPD numbers. This means that the national income and product accounts (NIPAs) where the IPD is calculated (Section 1 - Table 1.1.9) will be adjusted to reflect new and improved methodologies and incorporate new source data. This year is a comprehensive update year of the NIPA accounts (completed once every 5 years), and therefore the IPD rate may be quite a bit different from the rate we have been seeing so far this year. BEA has published an article entitled Preview of the 2018 Comprehensive Update to the National Income and Product Accounts that describes the major changes that will be introduced.

One way or another, we will publish the official IPD figure in our blog and e-newsletters in late September. Make sure you are signed up for our In Focus: Finance newsletter so we can send you the information as soon as it is released.

For more information – including examples of substantial need findings in the unlikely event that the IPD does fall below one percent this year – see our Implicit Price Deflator webpage.

New Legislation

Recent Legislation That May Affect Your Budget

In the past, we have focused only on the most recent legislative session in Budget Suggestions. However, this year we are including several bills that have been adopted in prior sessions, since there are several pieces of legislation from previous years that will start having a fiscal impact in 2019.

MARKETPLACE FAIRNESS ACT – EHB 2163

EHB 2163, enacted in 2017, had a few different components with varying effective dates:

1. **Capture the retail sales tax lost from internet and remote sales (Parts 1 and 2 of EHB 2163).** This legislation should have a direct impact on local governments by increasing their projected sales tax income effective January 1, 2018, and preliminary estimates indicate that local governments are seeing some results. The DOR and several local government representatives met last December to discuss concerns about monitoring and tracking of remote sellers and marketplace facilitators. The SST meeting minutes provide some insight into the best ways to monitor these remote sales revenues. (Note: The U.S. Supreme Court recently ruled in *South Dakota v. Wayfair* allowing states and local governments the ability to require vendors with no physical presence in the state to collect sales tax.)

2. **Eliminate the sales and use tax exemption for bottled water and narrow a use tax exemption for self-produced fuel (biomass) (Part 1 of EHB 2163).** This portion took effect August 1, 2017. Bottled water sales have been strong for many years and local governments should already be seeing increases in sales tax due to the elimination of this tax exemption.

3. **Eliminate streamlined sales tax (SST) mitigation payments to local governments (Part 4 of EHB 2163).** The Marketplace Fairness Act is also phasing out the streamlined sales tax (SST) mitigation payments that many cities and counties have received since 2008. SST mitigation helped compensate jurisdictions for sales tax revenues that were lost when the state switched from an origin-based to a destination-based sales tax for delivered goods. Transit agencies were eliminated last year, while the remaining cities, counties, and public facility districts are being phased out between January 1, 2018 and September 30, 2019.

   As jurisdictions receive increased sales tax revenues from internet and remote sales, their SST mitigation payments are reduced by a corresponding amount, and all mitigation payments will cease as of October 1, 2019. The estimated loss of annual income for cities and counties is $14.1 million, while DOR has projected the increased local revenues from internet sales for 2019 at $47.3 million (although there have been some conflicting estimates from other agencies).

   In many cases, DOR expects the increased sales tax revenues from remote sales to more than offset the elimination of the SST mitigation payments. The number of number of local governments receiving payments has fallen from 51 on March 30, 2018 (for activity during Q4 2017) to 26 on June 29 (for activity during Q1 2018; see June 2018 SST Mitigation payments), with total quarterly payments falling from $3.5 million to $2.5 million.

   However, there are a few cities where the expiration of SST mitigation payments will have a significant budgetary impact beginning October 1, 2019. In particular, the cities of Kent, Auburn, Tukwila, Issaquah, Fife, Woodinville, Sumner, Spokane Valley, Burlington, and Lynnwood were the primary recipients of the June 2018 distribution. These jurisdictions, plus a few others that received smaller distributions, are anticipated to lose a combined $10 million annually once SST mitigation expires. Interestingly enough, none of the counties seem to have an ongoing net revenue impact.

BUSINESS LICENSE AND TAX SIMPLIFICATION – EHB 2005

EHB 2005, enacted in 2017, is the result of a city task force created in 2016 (HB 2959) and working through the Association of Washington Cities (AWC) to evaluate options to simplify local business taxes and licensing, particularly for businesses that operate within multiple jurisdictions. The result is that cities and towns with general business license requirements must partner with either the state Business Licensing Service (BLS) system or the FileLocal system over the next few years to administer their business license programs.

It also requires that cities and towns adopt mandatory provisions from the model business license ordinance drafted by the AWC/city task force. These mandatory provisions must be adopted by October 17, 2018 by all cities currently partnering with the state BLS and by January 1, 2019 for all other cities and towns. See our blog post Cities and Towns Must Update General Business License Ordinances ASAP!, as well as our new webpage on City Business Licenses and Fees, for an in-depth review and discussion of this topic.

With nearly 230 cities issuing local business licenses, many of you will be busy with reviewing your current ordinances, including adding the new mandatory provisions and updating other provisions where you see changes are needed.

PAID FAMILY & MEDICAL LEAVE – SB 5975

SB 5975 was enacted in 2017, but its provisions become effective January 1, 2019, when many local government entities will begin paying premiums to the Employment Security Department (ESD). The Paid Family and Medical Leave program is a state-run insurance program that is funded through premiums paid by both the employer and the employee. Local government employers with 50 or fewer employees are exempt from paying the employer share of the premium, but it's important to note that all employers will be required to collect and remit the employee share of the premium and report employee wages, hours worked, and additional information each quarter, similar to the unemployment reporting requirement of the ESD.

The total premium is 0.4% of gross wages paid with approximately 63% paid by the employee and 37% by those local government employers with 50 or more employees. Employers have the option to pay the employees' share of the premium as an additional employee benefit.

One-third of the premium goes to family leave benefits, while the other two-thirds goes to medical leave. Any city or county that offers a "voluntary plan" that meets or exceeds the state requirements may be exempted from the state plan and the employer/employee premiums for the family and/or medical leave portions as long as the voluntary plan is approved by the state. In addition, any collective bargaining agreement that was in existence on October 19, 2017 is not subject to the family and medical leave requirements until the agreement is re-opened, re-negotiated, or expires.

If you are a city, town, or county with 50 or more employees – note that this is not FTEs, but rather the total number of employees regardless of hours worked – you will have an additional employee cost starting in January 2019 that will need budget consideration.

SICK LEAVE AND STATE MINIMUM WAGE – I-433

Initiative 1433 (I-1433) was passed by the voters in 2016 and has varying effective dates. The minimum wage went into effect last year and increases each year as follows:

Year	Minimum Wage
2017	$11.00
2018	$11.50
2019	$12.00
2020	$13.50
2021 and beyond	Plus CPI-W increase

As you can see, the largest single-year increase will occur in 2020. After that, the increases will be much more modest and tied to the CPI-W rate.

The initiative also provided for a paid sick leave benefit. Effective January 1, 2018, all employers, including local governments, were required to provide employees with a minimum of one hour of paid sick leave for every 40 hours worked. Local governments should make sure their personnel policies are updated to reflect the changes in sick leave benefits. For a more information on I-1433, see our MRSC blog post Paid Sick Leave and Initiative 1433 and the Department of Labor and Industries I-1433 webpage.

Both the annual minimum wage increase and sick leave benefits now required for all employees will need to be considered when developing your budget.

OPTIONAL PROPERTY TAX EXEMPTION FOR LEVY LID LIFTS – HB 2597

HB 2597 is effective June 7, 2018 and amends RCW 84.55.050 to extend the existing state property tax exemption under RCW 84.36.381 – for qualifying senior citizens, disabled veterans, and other people who are disabled – to also apply to city and county levy lid lifts if desired by the local jurisdiction. If your jurisdiction is planning a levy lid lift and you want to exempt these individuals, you must state the exemption in the ballot measure placed before the voters.

1.5% PERS 1 COLA – SB 6340

During the recession, the statutory cost-of-living adjustments (COLAs) that retirees had been receiving were repealed. SB 6340 makes a one-time COLA of 1.5% for PERS 1 retirees effective July 1, 2018. The annual increase for each recipient is capped at $62.50 per month or $750 per year. Employers will fund the cost of this benefit through a supplemental contribution rate increase starting September 1, 2018. There will be no impact on employee rates. PERS Plan 1 UAAL contribution rates will increase to 0.10%.

PTSD PRESUMPTION OF COVERAGE FOR FIRST RESPONDERS – SSB 6214

SSB 6214 is effective June 7, 2018 and adds the presumption of coverage of post-traumatic stress disorders (PTSD) as an occupational disease in certain situations for some first responders and for law enforcement officers and firefighters when:

- The person is hired after June 7, 2018,
- PTSD develops or manifests itself after the individual served at least 10 years, and
- The person submits to a psychological examination by a licensed psychiatrist or psychologist as a condition of employment that rules out the presence of pre-employment PTSD. (If the employer does not provide a psychological exam and the employee meets the other requirements, the presumption of coverage also applies.)

The legislation also precludes PTSD coverage if it the PTSD is attributed to disciplinary action, work evaluation, job transfer, layoff, demotion, termination, or other similar action taken in good faith by an employer.

The legislation does not have immediate impacts on budgets being prepared for 2019, but the extension of coverage for PTSD may result in future impacts to industrial insurance rates if negatively impacted by multiple cases of PTSD.

Proposed Initiatives

The deadline for submitting signatures to the Secretary of State's Office to place an initiative on the November general election ballot was July 6. Each initiative requires almost 260,000 valid signatures, and the Secretary of State's office recommends submitting at least 325,000 due to duplicate and invalid signatures.

Three initiatives submitted signatures by the July 6 deadline and appear likely to make the ballot. All three initiatives could potentially impact local government budgets, either directly or indirectly.

In addition, there is I-940, a 2017 initiative to the legislature regarding law enforcement de-escalation and deadly force. The legislature adopted an amended version of this initiative during the 2018 session, but it is now tied up in court and voters may end up voting on the original initiative in November after all. One way or another, I-940 is unlikely to have a significant impact on local government budgets at this time.

Petitions were also circulating for other initiatives, including I-1600 to establish universal healthcare in Washington and I-1608 to make collective bargaining negotiations between government agencies and their employees open to the public. However, these campaigns did not submit signatures by the July 6 deadline. The backers of I-1608 in particular, regarding public union negotiations, have indicated that they are likely to try again for the 2019 general election.

I-1631 – ESTABLISHING A CARBON FEE

Initiative 1631 would establish a fee of $15 per metric ton for carbon emissions effective January 1, 2020, although certain industries would be exempted. Revenues would be spent on projects to reduce greenhouse gas emissions.

According to the ballot measure summary:

> This measure would impose pollution fees on certain large emitters of greenhouse gas pollutants based on rules determining carbon content, starting in 2020. A public board would supervise spending the revenues on reducing pollution, promoting clean energy, and addressing climate impacts to the environment and communities. Utilities could receive credits for approved investments. Indian tribes would consult on projects directly impacting their land. There would be periodic reporting on the measure's effectiveness.

The fee would rise by $2 per ton every year, plus the rate of inflation, until certain greenhouse gas reduction goals are achieved, at which point the fee would increase at the rate of inflation.

While the initiative does not directly mention local governments, it would certainly have a financial impact. Gasoline prices would go up an estimated 14 cents per gallon in 2020, with additional increases each year after that. The broader impacts to local businesses and the state economy, which could also impact local governments, are unclear. It is also unclear whether or to what extent local governments would benefit from the revenues raised.

While we obviously cannot predict whether this measure will pass or fail, a somewhat similar measure, Initiative 732, was rejected by voters in 2016 with about 40% of the vote. While the 2016 measure was intended to be revenue-neutral and would have lowered the state's portion of the sales tax rate, I-1631 is not revenue-neutral and would not lower the state's sales tax rate.

I-1634 – NO MORE LOCAL GOVERNMENT SODA TAXES

Initiative 1634 would prohibit local governments from imposing any new tax, fee, or other assessment specifically on groceries. Existing taxes or fees imposed prior to January 15, 2018 would still be allowed but could not be increased.

According to the ballot measure summary:

> This measure would prohibit new or increased local taxes, fees, or assessments on raw or processed

> foods, beverages, or their ingredients, intended for human consumption except alcoholic beverages, marijuana products, and tobacco, unless they are generally applicable and meet specified requirements. Collection of local sales and use taxes, and of taxes, fees, and assessments on such raw or processed foods or beverages, or any ingredients thereof, that were in effect January 15, 2018, may continue.

Although it is billed as an affordable grocery measure, in reality this initiative is funded by soda and energy drink companies in an attempt to prevent other local governments from following Seattle's "soda tax" model. Effective January 1, Seattle imposed a tax of 1.75 cents per fluid ounce on sodas and sweetened drinks, with certain exceptions, which works out to 21 cents per 12-ounce can or 35 cents per 20-ounce bottle. The city is using the revenue for a variety of purposes, including better access to healthy and affordable food, a college scholarship endowment program, preschool facilities, expanded access to food banks and meal programs, and health and nutrition programs. The tax brought in more than $4 million in the first quarter, exceeding the city's expectations. For more information on Seattle's tax, see our blog post My Can of Coke Costs What?!!!

If this initiative passes, it will not affect Seattle's soda tax or any other similar measures adopted prior to January 15, 2018 (although we are not aware of any jurisdictions besides Seattle that have adopted such a measure). However, it will prevent other cities or counties from imposing similar fees in the future.

This measure will have no impact on sales tax revenues. Groceries are already exempted from sales taxes under RCW 82.08.0293. However, soft drinks, bottled water, prepared food, and dietary supplements are taxable, and sales taxes will continue to apply to those items regardless of the outcome of this initiative.

I-1639 – REGULATING FIREARMS AND SEMIAUTOMATIC RIFLES

Initiative 1639 would place limitations on firearms and particularly semi-automatic weapons.

According to the ballot measure summary:

> This measure would require increased background checks, firearm safety training, and waiting periods before semiautomatic assault rifles may be purchased or delivered. It would impose age limitations on who may purchase and possess certain firearms, including prohibiting purchases by persons under age 21. It would require certain secured firearm storage or trigger-locks, and criminalize noncompliant firearm storage if it results in unauthorized use. It would enact other firearm-related requirements, including certain warnings, recordkeeping, and fees.

If passed, this measure would likely impose some costs upon local law enforcement agencies for firearms training programs and enforcement. However, it would also authorize the Department of Licensing to require firearms dealers to charge a fee up to $25 for each purchase or transfer of a semiautomatic rifle to help offset the administrative costs, including costs incurred by city and county agencies, of enforcing this law. The fee may be adjusted at the beginning of each state biennium, not to exceed the percentage increase in the CPI-U, CPI-W, or a successor index.

It is worth noting that the two most recent firearm regulation initiatives – I-594 in 2014, which expanded background checks, and I-1491 in 2016, which established extreme risk protection orders – both passed with overwhelming support.

However, this initiative has also faced several legal challenges from groups attempting to keep it off the ballot. So far the legal challenges have failed, and while the Secretary of State has expressed concerns about the way the text was presented on the petition sheets, she has stated that she does not have the legal authority to reject them. Further lawsuits are expected.

Revenue Forecasts

Core Revenues

Historically, the revenue component of Budget Suggestions has been focused solely on state shared revenues that are forecast on a per capita basis. But because revenue projections are such a critical component of budget development, we are also going to speak to the "core revenues" of local government – namely property taxes, retail sales taxes, and (for cities and towns) business and occupation (B&O) taxes including utility taxes.

Core revenues comprise the largest sources of income for the general fund, and while we cannot forecast those revenues for you, we do have resources to help you forecast these revenue sources accurately (or within a reasonable margin of error).

PROPERTY TAXES

Property taxes are, for most entities, the single largest revenue stream, but they can be a bit tricky to forecast. When forecasting property tax revenues it is important to consider the available options.

Cities and counties with a population under 10,000 may not increase their total levy amount more than 1% annually, known as the "levy lid" (excluding levies for new construction or increases in state-assessed utility valuations).

Cities and counties with a population of 10,000 or more are restricted to the lesser of 1% or the rate of inflation, whichever is lower. Inflation, as defined in RCW 84.55.005, means the percentage change in the implicit price deflator (IPD) for the most recent 12-month period, as calculated on September 25. However, there is an exception – if the percentage change in the IPD is below 1% on September 25, these jurisdictions may adopt resolutions of "substantial need" to increase the levy amount to the maximum lid limit of 1%. As mentioned earlier in the Economic Factors section, it is extremely unlikely that the IPD will fall below 1% this year, so a "substantial need" finding should be unnecessary. For more information on the IPD, see page 18 or our Implicit Price Deflator webpage.

However, local governments can exceed the 1% levy lid if they have banked capacity available under RCW 84.55.092. (If your jurisdiction did not take the maximum 1% increase in years past, it may have banked capacity available). For more information on property taxes, including banked capacity, see our Property Tax in Washington State webpage.

Local governments may also exceed the 1% levy lid for one or more years if they have not reached their statutory levy rate limit through a "levy lid lift." This option requires voter approval with a simple majority of votes. The deadline to submit a levy lid lift to voters for 2019 levies is August 7, 2018, so any jurisdictions that may have missed this deadline will not be able to increase the levy lid until 2020 at the earliest. For more information, see our Levy Lid Lifts webpage.

It is important to plan levy lid lifts and other revenue sources requiring voter approval well in advance – see Key Dates for Voted Revenue Increases on page 31.

Your local county assessor plays a vital role in certifying the assessed valuations that will be used to set your levies for the forthcoming year (RCW 84.48.130). Typically, the county assessors will distribute property tax information during the second half of September each year. This information consists of assessed valuations, new construction valuations, and state utility values, as well as each jurisdiction's current levy amounts, current levy rates, and maximum statutory levy rate.

The county assessor will provide you with a levy limit worksheet specific to your jurisdiction that will form the basis of your property tax levy projection and will include estimates of assessed valuations for new construction and state utilities to help you with forecasting the levy amount to be set for collection in the coming budget year. The assessor's office can also assist you with determining whether you have banked capacity available.

To assist with your understanding of the various components and timelines associated with the development of the property tax levy, the Department of Revenue (DOR) has created a property tax calendar for 2018 which explains the process, the various state and local government entities responsible for its development, and when you may expect to receive important property tax forecasting information.

For historical property tax and assessed valuation data for cities, towns, or counties dating back to 2010, see our Tax and Population Data webpage. This data can be helpful when developing long-term forecasts and trend analyses.

RETAIL SALES TAX

The retail sales tax typically represents the second largest revenue source in the general fund budget. Smaller entities often use historical data as their basis for projecting these revenues, while larger jurisdictions will use more sophisticated forecasting models.

Our Tax and Population Data webpage contains some useful data regarding sales tax distributions. In particular, our tax and population trends show the sales tax distributions received by each city, town, and county every year dating back to 2010. However, recent legislative changes have made sales tax forecasting more challenging, at least temporarily.

Cities and counties received a boost in sales tax revenues starting January 1, 2018 thanks to the Marketplace Fairness Act passed by the state legislature last year, which extended sales taxes to many internet and remote sales that were not taxed previously and eliminated the sales tax exemption for bottled water. (See page 21.) However, as noted earlier, SST mitigation payments will also be phased out by October 1, 2019.

To determine the impact of this legislation and assist with future sales tax projections, it will be important to monitor sales tax revenues being reported and remitted to your entity. Cities and counties can access sales tax reports via the My DOR Partner Portal. Whatever your forecast method, it's important to document your methodology and discuss it with the budget team.

It is also important to note that each jurisdiction has different sales tax rates, and different jurisdictions may use the money for different purposes. So we've created a new tool this year (also on our Tax and Population Data webpage) showing the current sales tax rates and components for every city, town, and county. Not only do we provide the total sales tax rate for each jurisdiction, but we also show you where the money is going – for instance, how much is going to the state, how much is the "first half" and "second half" going to the city or county, how much is going to the city or county for public safety purposes, how much is going to transit districts, etc.

And of course, each of these sales taxes has its own statutory requirements regarding how the money must be used, what jurisdictions are eligible, the expiration date (if any), revenue distribution (some sales tax distributions must be shared between cities and counties), and more. Make sure you understand the fine print.

If your jurisdiction is considering a sales tax increase for the upcoming budget year, know that most sales tax increases require voter approval with a simple majority vote. Additionally, the timing and implementation of sales tax changes is regulated by RCW 82.14.055:

- Sales tax changes may only take effect on January 1, April 1, or July 1. Note that beginning in 2017, sales tax changes may no longer take effect on October 1.
- Sales tax changes cannot take effect until at least 75 days after DOR receives notice of the change.

For more information on the timing of voted sales tax increases, see Key Dates for Voted Revenue Increases on page 31.

B&O AND UTILITY TAXES

Business and occupation (B&O) and utility taxes have become core resources for many cities and towns. When forecasting these revenues, it is important to know whether utilities are increasing their rates or whether local businesses are expanding or contracting. Just like the sales tax projections, it's important to document your forecasting methodology and discuss the results with the budget team.

VOTED REVENUE INCREASES AND KEY DATES

If your jurisdiction is considering a voted revenue increase in the next year or two, you must plan ahead and keep the various statutory requirements and deadlines in mind.

To place an item on the ballot for the February or April special elections, your jurisdiction must adopt a resolution at least 60 days before the election date. For the primary election, you must adopt the resolution no later than the Friday immediately before the first day of regular candidate filing. And for the general election, you must adopt the resolution no later than the date of the primary election. (See RCW 29A.04.321 for counties and RCW 29A.04.330 for cities/towns.) For the 2018-2019 deadlines, see the chart on the next page.

You should also consider whether your measure requires a simple majority (50% plus one) or a supermajority (60%) in order to pass, as well as whether there are minimum validation (voter turnout) requirements.

Validation – which is only required for bonds and certain property taxes – refers to the minimum voter turnout required for passage, expressed as a percentage of the voter turnout in the most recent general election. Validation is not a problem for most jurisdictions in most years, but it can create difficulties in low-turnout special elections or in years immediately following high-turnout elections. For instance, some jurisdictions struggled with validation in 2017 following the 2016 presidential election. However, validation is not likely to be an issue for most jurisdictions in 2019 and 2020.

To see how voted measures have fared in other jurisdictions dating back to November 2011, refer to our Local Ballot Measure Database. You can use this tool to find ballot measures using one or more of the following categories:

- Type of measure (such as levy lid lifts, bonds, transportation benefit district sales taxes, etc.)
- Subject (such as fire, transportation, parks and recreation, etc.)
- Jurisdiction type (such as city or county)
- County

For instance, you could use the database to search for all recent levy lid lifts, all county public safety sales tax measures, all city park and recreation bond measures in Spokane County, or any number of other combinations.

On the following page are some key dates to remember. If your jurisdiction does not meet the August 7, 2018 deadline for filing a resolution for the general election, you will not be able to send a ballot measure to voters until the February 2019 special election at the earliest, which means any proposed property tax increases would not take effect until 2020 and any proposed sales tax increases would not take effect until July 1, 2019 or later.

If your jurisdiction is considering a voted revenue increase in the next year or two, you must plan ahead and keep the various statutory requirements and deadlines in mind.

Key Dates for Voted Revenue Increases

Election	Deadline to file resolution	Election date	Approved sales tax changes take effect	Approved property tax changes take effect
2018 Primary	***Already passed***	**August 7, 2018**	**January 1, 2019**	**2019**
2018 General	**August 7, 2018**	**November 6, 2018**	**April 1, 2019**	**2019**
2019 Feb. Special	**December 14, 2018**	**February 12, 2019**	**July 1, 2019**	**2020**
2019 Apr. Special	**February 22, 2019**	**April 23, 2019**	**January 1, 2020***	**2020**
2019 Primary	**May 10, 2019**	**August 6, 2019**	**January 1, 2020**	**2020**
2019 General	**August 6, 2019**	**November 5, 2019**	**April 1, 2020**	**2020**

**Beginning in 2017, sales tax rates no longer change on October 1*

State Shared Revenues

The State of Washington distributes a number of "state shared revenues" to cities, towns, and counties. Some of these revenues are distributed to all entities on a strictly population-based (per capita) basis, while others are based on different factors and/or are only distributed to jurisdictions that meet certain criteria.

Forecasting state shared revenues can be somewhat tricky. First of all, the state fiscal year begins July 1 and ends June 30, while all local governments in Washington use a calendar year budget (January 1 to December 31). As a result, legislation can and often does impact shared revenue distributions halfway through the local government budget year.

Secondly, it is impossible to predict what the legislature will do – in recent years, it has added new distributions (increased gas taxes, multimodal transportation, and marijuana excise taxes), reduced distributions (marijuana excise taxes, which were later restored), and attempted to eliminate distributions (the fire insurance premium tax, which was preserved by the governor's veto). When creating long-range forecasts, remember that these resources are vulnerable at any time, especially if state revenues start decreasing in the event of a recession.

And finally, some of the revenue distributions can vary significantly from year to year based on certain formulas.

We have provided our best estimates of the state shared revenue distributions for 2019 and 2020 based on the second year of the 2017-2019 state biennial budget (July 1, 2018 to June 30, 2019) and what we believe to be conservative estimates for the next state biennium. For those distributions that are done on a strictly per capita basis, we have provided per capita estimates (see the summary tables on pages 48–49). You can also view the total estimated per capita distributions, tailored to your specific jurisdiction, in our online 2019 State Shared Revenue Estimator.

Shared revenues are distributed on the last business day of the month. Some are distributed monthly and others quarterly, while the fire insurance premium tax is distributed on an annual basis. (See the State Shared Revenue Distribution Calendar on page 47.)

Population and Annexation Adjustments

State shared revenues are allocated by the state biennial budget and mid-biennium adjustment process. Historically, these shared revenues vary depending upon the legislative process, the economy, and other political factors. Changes in distributions (if any) begin each year on July 1. The distribution rates are then updated each year on January 1 to reflect the most recent population estimates developed by OFM in the previous calendar year.

In addition, OFM also makes quarterly adjustments to account for any new annexations. Cities that annex qualify for state shared revenue distributions on their new population base starting the first day of the quarter after the effective date of the OFM-approved annexation, and distributions for other cities, towns, and counties may be adjusted slightly each quarter as a result.

Each year for Budget Suggestions, our per capita estimates are based on the April 1 OFM population estimates (see page 14) adjusted for any completed or anticipated annexations occurring after April 1.

However, the recent and pending annexations currently listed on the OFM Central Annexation Tracking webpage will have a negligible impact on population this year. As a result, we will be using the April 1, 2018 OFM population numbers, without adjustment, for calculating the 2019 per capita state shared revenues. This results in a **total incorporated population of 4,836,485** and a **total unincorporated population of 2,591,085**.

It should be noted that 2019 shared revenue distributions can still be impacted by annexations that are not yet in OFM's tracking system.

	Official April 1, 2018 Population Estimate	Adjustments for Annexations after April 1	Population Estimate for 2019 Budget Suggestions
Incorporated Cities/Towns	**4,836,485**	**+ 0**	**= 4,836,485**
Unincorporated Counties	**2,591,085**	**- 0**	**= 2,591,085**

TRANSPORTATION DISTRIBUTIONS

All cities, towns, and counties receive three separate transportation distributions. The first is the motor vehicle fuel tax (MVFT), which is distributed as a percentage of the total fuel taxes collected statewide. The other two, the "increased motor vehicle fuel tax" and "multi-modal" distributions, were created in 2015 by 2ESSB 5987 and consist of direct transfers from the state transportation fund, so those allocations are not impacted by actual fuel tax collections.

MVFT and increased MVFT distributions must be used for highway purposes, while the multi-modal funds may be used for any transportation purpose.

Motor Vehicle Fuel Tax

Fuel taxes in Washington are assessed as cents per gallon, so motor vehicle fuel tax (MVFT) revenues – and therefore the MVFT distributions to cities and counties – depend on the number of gallons sold, not the dollar value of the sales.

Transportation and revenue forecasts are released each quarter by the Washington State Department of Transportation (WSDOT). Each year, we use the calendar year second quarter as the basis for forecasting the MVFT distributions for cities and counties. The June 2018 forecast provides a forecast span of 10 years plus a look back of 2 years and uses multiple factors in the process.

The key conclusions drawn from the June forecast is that overall transportation revenues for the current biennium (2017-19) are expected to exceed the prior 2015-17 biennium by 10.5% and that the 10-year trend projects a modest but steady increase of 1.4% per year in transportation revenues due primarily to increased gas tax collections and the enhanced driver's license forecasts.

The primary variables affecting fuel consumption include gasoline and diesel fuel price projections, Washington personal income, and inflation. In particular, gasoline tax collections are negatively related to the price of gasoline, meaning that as gas prices rise, consumption and tax revenues fall. WSDOT projects that annual fuel prices will increase 7% for 2018, followed by a decrease of 3% in 2019 and a very modest increase of less than 1% in 2020. Other factors affecting gasoline sales and tax collections include unemployment rates, fuel efficiency, and sales of alternative fuel vehicles such as electric cars.

Cities and towns receive MVFT distributions on a per capita basis under RCW 46.68.090(2)(g), (4)(a), and (5)(a), less state adjustments found in RCW 46.68.110(1) and (2) and the Small City Pavement and Sidewalk account.

For counties, MVFT revenues are distributed under RCW 46.68.090(2)(h) and (4)(b)and (5)(b), less state adjustments found in RCW 46.68.120(1) and (3) and withholding for the County Road Administration Board (CRAB) as required by RCW 46.68.090(2)(h). The distribution formula includes annual road costs and "need" in addition to population. Distributions are calculated by CRAB according to the requirements stated RCW 46.68.120(4). The distribution percentages are set at the annual board meeting of CRAB each year after the release date of Budget Suggestions, so therefore we are unable to provide distribution amounts for counties. CRAB will notify counties directly of the allocations for the next fiscal period. CRAB also posts County Data tables on its website for past distributions.
For both cities and counties, it is worth noting that the tax revenue forecasts provided by WSDOT are updated

each quarter and often vary slightly from earlier projections. Last year the actual gas taxes collected were 1% lower than initially projected, while this year actual gas tax collections are 1.65% higher than projected in 2018 Budget Suggestions. It is important to factor these variables into your revenue projections.

Motor Vehicle Fuel Tax	
Eligible jurisdictions	All cities, towns, and counties
Estimated 2019 distribution	**Cities:** $20.73 per capita **Counties:** *No estimate provided. Determined by CRAB formula based on population, annual road costs, and annual monetary needs.*
Payments received	At the end of every month
Revenue must be used for	Highway purposes

Editor's Note: Brian Calkins, the Transportation Economist for the Budget and Financial Analysis Division of the Department of Transportation, has been providing the fuel tax forecasts for many years. Brian will be retiring this summer and we want to both thank him and wish him all the best.

Increased Motor Vehicle Fuel Tax and Multi-Modal Funds

Counties, cities, and towns received a share of the multi-modal funds and the increase in fuel tax as a result of 2ESSB 5987. The legislation, adopted in 2015, provided for direct distributions to be phased in from FY 2016–2017. Beginning with FY 2018, 2ESSB 5987 provides over $25 million annually to counties, cities, and towns, allocated as follows:

- Increased MVFT: $11,719,000 per year
- Multi-modal funds: $13,393,000 per year

These revenues are split equally between cities and counties. City distributions are based on population, while county distributions are established by the same CRAB formula as the MVFT described earlier (RCW 46.68.120(4)) and set at the annual CRAB board meeting in late July, following the release date of Budget Suggestions.

Increased Motor Vehicle Fuel Tax	
Eligible jurisdictions	All cities, towns, and counties
Estimated 2019 distribution	**Cities:** $1.21 per capita **Counties:** *No estimate provided. Determined by CRAB formula based on population, annual road costs, and annual monetary needs.*
Payments received	Quarterly, at the end of March, June, September, and December
Revenue must be used for	Highway purposes

Multimodal Transportation	
Eligible jurisdictions	All cities, towns, and counties
Estimated 2019 distribution	**Cities:** $1.38 per capita **Counties:** *No estimate provided. Determined by CRAB formula based on population, annual road costs, and annual monetary needs.*
Payments received	Quarterly, at the end of March, June, September, and December
Revenue must be used for	Any transportation purposes

LIQUOR REVENUES

Liquor revenues have two separate distributions that are received at different times. There is a state shared distribution from the liquor revolving account for licensing fees (this is referred to by the state and others as "liquor profits"), and there is a distribution from the liquor excise tax account that represents a portion of the excise tax collected on liquor sales. The total distribution from liquor profits is the same each year, while the total distribution for liquor excise taxes varies depending on liquor sales.

Reminder: *You must devote at least 2% of your liquor profits and liquor excise tax distributions to an approved alcohol or drug addiction program under RCW 71.24.555 in order to be eligible to receive these distributions.*

Liquor revenue distributions have seen a lot of changes over the past several years. Here are a few of the more significant ones:

- Initiative 1183, passed in November 2011, privatized the distribution and retail sale of liquor effective June 1, 2012. The result of this initiative for local governments was that instead of a calculation based on the profits generated from state-run liquor sales, the revenue distribution for liquor profits is now based on the collection of license fees paid by retailers and distributors.

- State legislation in 2012 created a permanent diversion of $10 million per year ($2.5 million per quarter) of city and county money from the liquor excise tax fund to the state general fund (RCW 82.08.170(3)). The permanent deduction in liquor excise tax distributions is applied to cities and counties in the same proportionate share as the distribution of liquor excise tax – 80% to cities and 20% to counties – resulting in an annual loss of $8 million to cities and towns and $2 million to counties.

- The legislature has changed the share of liquor excise taxes remitted to cities and counties from 35% in the 2013-2015 state budget to 22.5% in 2015-2017 and back again to 35% in the current 2017-2019 biennium.

These fluctuations have made long term forecasting of this state shared revenue a challenge.

Liquor Excise Taxes

The formula works as follows:

1. 35% of liquor excise tax collected is deposited in the "liquor excise tax fund" for distribution to cities, towns, and counties (RCW 82.08.160(1)).
2. $2.5 million each quarter ($10 million a year) is deducted from the liquor excise tax fund and remitted to the state general fund (RCW 82.08.170(3)).
3. Of the remaining amount, 80% is distributed to cities (based on population) and 20% is distributed to counties (based on the unincorporated population).

The June 2018 forecasts by the ERFC project an increase in liquor excise tax collections, resulting in increased distributions. The revised forecast for 2018 distributions is $24,020,743 for cities and $5,427,047 for counties.

For calendar year 2019 the ERFC estimates liquor excise tax revenues that are to be deposited into the liquor excise tax fund at $40,977,508. After deductions, the total distributions are estimated to be $24,782,007 for cities and $5,600,019 for counties.

It's important to note that the distributions to cities and counties occur with a lag of one quarter after the collections are made by the state. So this difference in timing makes state estimates and our estimates hard to compare. When comparing distributions by the state treasurer's office to the ERFC forecasts there is usually a variation of plus or minus 2%.

Liquor Excise Taxes	
Eligible jurisdictions	All cities, towns, and counties
Estimated 2019 distribution	**Cities:** $5.14 per capita **Counties:** $2.17 per capita (unincorporated population)
Payment received	Quarterly at the end of January, April, July, and October
Revenue must be used for	At least 2% must be used for an approved alcohol or drug addiction program. The remaining 98% may be used for any purpose.

Editor's Note: The liquor excise tax forecasts are the work of Lance Carey of the Washington State Economic and Revenue Forecast Council (ERFC).

Liquor Board Profits

Initiative 1183 not only privatized liquor sales in Washington, but it also changed the types of liquor revenues collected by the state. The state is now collecting revenue in the form of license fees from distributors and retailers, rather than profits from the state-run liquor stores. However, the Liquor and Cannabis Board (LCB) continues to call these funds "liquor profits." A portion of these collections go to cities, counties, and border jurisdictions. Codified as RCW 66.24.065, it reads:

> The distribution of spirits license fees under RCW 66.24.630 and 66.24.055 through the liquor revolving fund to border areas, counties, cities, towns, and [MRSC] must be made in a manner that provides that each category of recipients receive, in the aggregate, no less than it received from the liquor revolving fund during comparable periods prior to December 8, 2011. An additional distribution of ten million dollars per year from the spirits license fees must be provided to border areas, counties, cities, and towns through the liquor revolving fund for the purpose of enhancing public safety programs.

The "comparable periods prior to December 8, 2011" were determined by the Office of Financial Management (OFM) to be December 2010, March 2011, July 2011, and September 2011. The liquor profit revenue for cities, counties, and border areas for those four quarters was $39,438,000. To this amount, LCB adds the $10 million to enhance public safety programs for a total liquor profits distribution of $49,438,000 each year. Of that amount, 0.3%, which equals $148,314, is distributed to border cities and counties based on traffic totals, crime statistics, and per capita law enforcement spending. The remaining $49,289,686 is distributed as follows:

- Cities receive 80%, or $39,431,748 annually, distributed proportionately by population.
- Counties receive 20%, or $9,857,936 annually, distributed proportionately by unincorporated population.

As noted in the statute, $10 million of the $49,438,000 – just under 20.23% – must be spent on "enhancing public safety programs." We recommend that each city or county split its distribution so that it can account separately for the portion that must be spent on public safety. To calculate the portion that must be used for public safety purposes, multiply your distribution by 20.23%, or 0.2023. In addition, at least 2% of your distribution must be used for an approved alcohol or drug addiction program under RCW 71.24.555.

When forecasting liquor profits beyond next year's budget it's important to note that the total local distributions ($39,431,748 for cities and $9,857,936 for counties) will remain the same from year to year unless the legislature amends the statute. The initiative did not include any measures to account for inflation. We have incorporated a per capita ratio value in the rate tables at the end of this chapter and the ratio values will vary slightly each year due to changes in population prepared by OFM.

Liquor Profits	
Eligible jurisdictions	All cities, towns, and counties that do not prohibit the sale of liquor
Estimated 2019 distribution	**Cities:** $8.16 per capita **Counties:** $3.81 per capita (unincorporated population) *Border cities and counties get extra distributions based on traffic totals, crime rate, and per capita law enforcement spending*
Payment received	Quarterly at the end of March, June, September, and December
Revenue must be used for	At least 20.23% must be used for public safety programs, and an additional 2% must be used for an approved alcohol or drug addiction program. The remaining 77.77% may be used for any purpose.

CRIMINAL JUSTICE REVENUES

Cities and Towns

There are two separate criminal justice distributions for cities, created by RCW 82.14.320 and 82.14.330. Each program originally (in state fiscal year 2000) appropriated a total of $4.6 million, to be increased each July by the "fiscal growth factor" set forth in RCW 43.135.025. The fiscal growth factor is the average annual growth in state personal income for the prior ten fiscal years, and the distributions have now grown to total $9,356,692 (as of 2018) for each of these two separate criminal justice resources. The amount to be distributed for 2019 will be $9,730,959 for each program.

Criminal justice revenues created by RCW 82.14.320 – the "Criminal Justice – High Crime" distributions – are distributed partially based on crime rates and we cannot forecast them. The cities that may qualify for these funds know who they are and are aware of the problems they have in forecasting these revenues.

City Criminal Justice—High Crime	
Eligible jurisdictions	Any city or town with a crime rate over 125% of the annual statewide average that also meets the other requirements of RCW 82.14.320(2)
Estimated 2019 distribution	*No estimate provided. Determined by population, crime rates, and other factors.*
Payment received	Quarterly at the end of January, April, July, and October
Revenue must be used for	Criminal justice purposes; may not replace or supplant existing criminal justice funding

Criminal justice funds created by RCW 82.14.330 have four different components for distribution:

- **Population:** 16%, or $1,556,953, is distributed to all cities and towns on a per capita basis, with each city receiving a minimum of $1,000 no matter how small its population.

- **Special Programs:** 54%, or $5,254,718, is distributed to all cities and towns on a strictly per capita basis to be used for innovative law enforcement strategies, programs to help at-risk children or child abuse victims, and programs to reduce the level of domestic violence or to provide counseling for domestic violence victims. While these funds must be spent in these specific areas, there is no requirement for how much must be spent in each area. The city's entire distribution could be spent in only one of these areas if the city wishes.

- **Contracted Services:** 10%, or $973,096, goes to cities that contract with another governmental agency for the majority of their law enforcement services. Cities that qualify for this distribution must notify the Department of Commerce (DOC) by **November 30, 2018** to receive 2019 distributions. Cities are responsible for notifying DOC for any changes regarding these contractual relationships. However, any cities that are added to or removed from this list will only impact distributions for the next calendar year, and no adjustments will be made retroactively.

- **Violent Crime:** 20%, or $1,946,192, goes to cities with a three-year average violent crime rate (per 1,000 population) above 150% of the three-year statewide average. No city may receive more than $1.00 per capita.

Below is a summary of the four distributions under RCW 82.14.330. These are the labels under which the state treasurer's office makes the quarterly distributions. We have also included the per capita distributions (the 16% "Criminal Justice – Population" and the 54% "Criminal Justice – Special Programs") in the revenue forecast tables on pages 48–49.

City Criminal Justice—Population	
Eligible jurisdictions	All cities and towns
Estimated 2019 distribution	$0.33 per capita; minimum distribution of $1,000 per city/town.
Payment received	Quarterly at the end of January, April, July, and October
Revenue must be used for	Criminal justice purposes; may not replace or supplant existing criminal justice funding

City Criminal Justice—Special Programs	
Eligible jurisdictions	All cities and towns
Estimated 2019 distribution	$1.09 per capita
Payment received	Quarterly at the end of January, April, July, and October
Revenue must be used for	Innovative law enforcement strategies, programs for child abuse victims/at-risk children, or domestic violence programs

City Criminal Justice—Contracted Services	
Eligible jurisdictions	Any city or town that contracts with another local government agency for the majority of its law enforcement services
Estimated 2019 distribution	*No estimate provided. Determined by population and number of cities that contract for law enforcement.*
Payment received	Quarterly at the end of January, April, July, and October
Revenue must be used for	Criminal justice purposes; may not replace or supplant existing criminal justice funding

City Criminal Justice—Violent Crime	
Eligible jurisdictions	Any city or town with a violent crime rate over 150% of the three-year statewide average.
Estimated 2019 distribution	*No estimate provided. Determined by crime rate and population; no city may receive more than $1.00 per capita.*
Payment received	Quarterly at the end of January, April, July, and October
Revenue must be used for	Criminal justice purposes; may not replace or supplant existing criminal justice funding

Counties

Counties receive state shared criminal justice funds from the state general fund under the provisions of RCW 82.14.310. The initial appropriation, made by the state in fiscal year 2000, was $23.2 million and has grown to $47.2 million in 2018. This distribution from the state general fund is increased each July by the "fiscal growth factor," the same as the cities. The county funding formula includes population, the crime rate of the county, and the annual number of criminal cases filed in superior court. Because revenues are not distributed on a strictly per capita basis, we cannot provide a per capita forecast. The amount to be distributed for 2019 will be $49,077,881.

County Criminal Justice	
Eligible jurisdictions	All counties
Estimated 2019 distribution	*No estimate provided. Determined by population, crime rate, and number of criminal cases filed in superior court.*
Payment received	Quarterly at the end of January, April, July, and October
Revenue must be used for	Criminal justice purposes; may not replace or supplant existing criminal justice funding

MARIJUANA EXCISE TAX

HB 2136 was adopted during the 2015 legislative session and amended the state's marijuana regulatory and taxation system. Taxation collections and distribution were codified in RCW 69.50.530, .535, and .540 and and provided for revenue sharing with cities and counties, but the formula is a bit complicated.

The state distributes a portion of the marijuana excise taxes to the Liquor and Cannabis Board (LCB) and various state agencies and programs on a quarterly basis. At the end of the state fiscal year (June 30), the state treasurer must transfer any remaining unappropriated marijuana excise tax revenues into the general fund.

Originally, the formula stated that beginning in state fiscal year 2018 (July 1, 2017 - June 30, 2018), if marijuana excise tax collections deposited into the general fund in the prior fiscal year exceeded $25 million, then the legislature must appropriate an amount equal to 30% of those general fund deposits to cities, towns, and counties, up to a maximum of $15 million per year in fiscal years 2018 and 2019 and $20 million annually thereafter. However, the legislature also stated its intent for maximum distributions in subsequent fiscal biennia of no more than $15 million per fiscal year (RCW 69.50.540 (2)(g)(i)-(iv)).

The state biennial budget for 2017-2019 (SSB 5883) amended RCW 69.50.540 and lowered the cap for fiscal years 2018 and 2019 to $6 million annually – a reduction of 60% – with a caveat:

> "If the February 2018 forecast of state revenues for the general fund in the 2017-19 fiscal biennium exceeds the amount estimated in the June 2017 revenue forecast by over eighteen million dollars after adjusting for changes directly related to legislation adopted in the 2017 legislative session, the total share of marijuana excise tax revenue distributed to counties and cities [will reset the cap to $15 million annually for fiscal years 2018 and 2019, with the intent to reset all subsequent caps to $6 million annually]".

Moving forward to 2018: the February 2018 ERFC forecast of state revenues exceeded the June 2017 forecast, and the 2018-2019 supplemental budget that was passed by the legislature restored the full $15 million annual distribution for FY 2017-2019, removing the caveat entirely and ultimately rendering the February 2018 forecast moot. The legislature also stated an intent to maintain the $15 million distribution after 2019 (although obviously that can be altered in any future legislative session). As a result of all these changes, on March 31, 2018 the state made a one-time "catch-up" payment of $4.5 million to restore the previously cut distributions and returned the total FY 2018 distribution to the original $15 million.

The LCB's Marijuana Dashboard shows excise tax collections for fiscal year 2017 were almost $315 million. Current forecasts for total excise taxes and fees for fiscal year 2018 are over $346.8 million, with $117.3 million deposited in the general fund before distributions to local governments. (See the June 2018 Washington State Economic and Revenue Forecast, Table 3.18, prepared by the Economic Revenue and Forecast Council.) As a result, cities and counties will receive the full $15 million distribution over the next fiscal year.

The $15 million is distributed as follows:

- 30%, or $4.5 million – the "retail share" – goes to cities, towns, and counties where licensed marijuana retailers are physically located and in proportional share to the total revenues generated.
- 70%, or $10.5 million – the "per capita share" – is distributed on a per capita basis to all cities, towns, and counties that allow the siting of marijuana producers, processors, and retailers. Cities, towns, and counties that prohibit marijuana producers, processors, or retailers are not eligible. Of this amount:
  - $6,300,000 (60%) goes to eligible counties based on each county's total proportional population *(note that this is total population, unlike the other state shared distributions which are calculated based on unincorporated population)*
  - $4,200,000 (40%) goes to eligible cities and towns on a per capita basis.

Some jurisdictions will receive both the per capita and retail distributions, while others may receive only one or the other, and jurisdictions that completely prohibit marijuana businesses will receive neither. Below are a few hypothetical scenarios:

Hypothetical Marijuana Excise Tax Distribution Scenarios	Eligible for per capita share?	Eligible for retail share?
Jurisdiction allows marijuana production, processing, and retail and has at least one retailer located within the jurisdiction.	Yes	Yes
Jurisdiction prohibits marijuana entirely and as a result has no retailers located within the jurisdiction.	No	No
Town took no action to prohibit marijuana, but is small enough that no marijuana businesses can locate there under state law due to the buffer requirements.	Yes	No
Jurisdiction prohibits marijuana producers and processors but allows retailers and has at least one retailer located within the jurisdiction.	No	Yes
Jurisdiction currently prohibits new marijuana businesses but has existing retailers that are grandfathered in.	No	Yes
Jurisdiction prohibits marijuana retail and has no retailers but allows marijuana production and processing.	No	No

Each year by September 15, the LCB must provide the state treasurer with the annual distribution amount for each county and city. Payments (if any) are distributed four times per year on the last day of each fiscal quarter (September 30, December 31, March 31, and June 30). The State Treasurer's Office distributes both the "per capita" and "retail" shares together using the same BARS code.

The distributions that you receive in September will form the basis for your budget projections for the forthcoming budget year. However, any distributions after June 2019 will come from the 2019-2021 state biennial budget and could potentially be changed by the legislature.

Forecast

We have (tentatively) produced an estimate of the per capita distributions using the information from our Marijuana Regulation in Washington State webpage and ordinance database. Please note that this is a "big picture, point-in-time" estimate of the local regulatory environment as it exists in July 2018 (see below). While we work hard to keep our marijuana database up-to-date, this is still an evolving area and these numbers are subject to change.

The per capita distributions will be calculated based on the population of cities and counties that do not prohibit marijuana. If a city or county decides to repeal a previously adopted prohibition or removes a moratorium – or, on the other hand, imposes a new moratorium or prohibition – this will impact the distribution rates.

City Marijuana Policies as of July 2018	Est. Number	Est. Population
Cities/towns that partially or fully prohibit marijuana	85	1,231,010
Cities/towns that do not prohibit marijuana	**196**	**3,605,475**
TOTAL	281	4,836,485

County Marijuana Policies as of July 2018	Est. Number	Est. Total Population*
Counties that partially or fully prohibit marijuana	10	1,323,060
Counties that do not prohibit marijuana	**29**	**6,104,510**
TOTAL	39	7,427,570

**County marijuana excise tax distributions are distributed on the basis of total population, not unincorporated population*

Based on the population estimates of those cities and counties that do not prohibit marijuana, we have generated a 2019 "per capita" estimate of $1.17 for eligible cities and towns and $1.03 for eligible counties. Again, these numbers could fluctuate. We are unable to provide an estimate of the "retail share," which is dependent upon marijuana retail sales within each jurisdiction and the state as a whole.

Marijuana Excise Taxes "Per Capita Share"	
Eligible jurisdictions	All cities, towns, and counties that do not prohibit the siting of any state-licensed marijuana producer, processor, or retailer
Estimated 2019 distribution	**Cities:** $1.17 per capita **Counties:** $1.03 per capita *(total population, not unincorporated)*
Payments received	Quarterly at the end of March, June, September, and December. Will be distributed together with retail share using same BARS code.
Revenue must be used for	The notes in RCW 69.50.540 reference RCW 69.50.101 and the stated intent of I-502, which states that marijuana legalization will "[allow] law enforcement resources to be focused on violent and property crimes [and generate] new state and local tax revenue for education, health care, research, and substance abuse prevention."

Marijuana Excise Taxes "Retail Share"	
Eligible jurisdictions	All cities, towns, and counties with at least one marijuana retailer physically located within the jurisdiction
Estimated 2019 distribution	*No estimate provided; depends upon the jurisdiction's proportional share of statewide marijuana retail sales.*
Payments received	Quarterly at the end of March, June, September, and December. Will be distributed together with per capita share using same BARS code.
Revenue must be used for	Same as "per capita share" above

CITY-COUNTY ASSISTANCE DISTRIBUTIONS

RCW 82.45.060 imposes an excise tax of 1.028% on each sale of real property within Washington State. A portion of this tax (1.6%) must be deposited in the city-county assistance account that is created in RCW 43.08.290 for the purpose of providing assistance for certain cities and counties that meet the qualifications of the statute (see the formulas in the tables below). These funds were originally intended to mitigate the loss of the motor vehicle excise tax (MVET) that was distributed to local governments as a means of equalization of sales tax.

The formula used to allocate city funding is based on a sales and property tax equalization formula and the 2005 MVET backfill levels. The maximum distribution for any eligible city was originally capped at $100,000, to be increased each year by the increase in the July implicit price deflator (IPD) for personal consumption expenditures. The **2018 cap is $124,258**.

City Assistance Distributions	
Population	Distributions Formula
Cities/towns ***under* 5,000 population** *Only eligible if per capita assessed value is less than 2x the statewide average for all cities*	**Greater of** 55% sales tax equalization on "first half" local sales tax; 55% property tax equalization based on per capita assessed values per $1,000 assessed value; or 2005 MVET backfill.
Cities *over* 5,000 population *Only eligible if per capita assessed value is less than the statewide average for all cities*	**Greater of** 50% sales tax equalization on "first half" local sales tax; or 55% property tax equalization based on per capita assessed values per $1,000 assessed value

Any city that incorporates after August 1, 2005 is not eligible for funding.

If there are not enough revenues to fund the city distributions as outlined above, then they will each be reduced proportionately. If there are more revenues than necessary to fund the above distributions, the excess is to be distributed proportionately on the basis of population among those cities that have qualified for city-county assistance and impose the full second half-cent of the sales and use tax under RCW 82.14.030(2).

The county formulas are shown on the next page. Unlike cities, there are no eligibility restrictions.

County Assistance Distributions	
Population	Distributions Formula
All counties with unincorporated population over 100,000	**Greater of** $250,000 (to be increased each year by the increase in the July IPD for personal consumption expenditures, which produces an amount of $299,526 in 2018); or An amount equal to 65% of the statewide per capita average collected from the first half-cent of the sales and use tax with respect to taxable activity in the unincorporated areas of all counties in the previous fiscal year
All counties with unincorporated population under 100,000 *For counties under 15,000 unincorporated population, also see below*	**Greater of** 50% sales tax equalization on “first half” local sales tax; or 55% property tax equalization based on per capita assessed values per $1,000 assessed value
Counties with unincorporated populations under 15,000	**Greater of** Distribution for counties with unincorporated populations under 100,000 (see above); or The amount the county received in “backfill” for FY 2005 under section 716, Ch. 276, Laws of 2004 (amended state budget).

If there are not enough revenues to fund the county distributions as outlined above, then they will each be reduced proportionately. If there are more revenues than necessary to fund the above distributions, the excess is to be distributed proportionately on the basis of the unincorporated population among those counties that have qualified for city-county assistance funding and impose the full second half-cent of the sales and use tax under RCW 82.14.030(2).

Certification and distribution dates

The Department of Revenue (DOR) must certify the amounts to be distributed each year by October 1, with preliminary estimates available by September 1.

Funds are required to be distributed quarterly on January 1, April 1, July 1, and October 1. In order for these distribution dates to be met, the transfers are made on the last day of the previous month in conjunction with the regular remittance of revenues from the State Treasurer’s Office (OST) to local governments. As a result, the January 1 remittance is received on December 31, which is part of the current budget cycle for cities, towns, and counties instead of being received in the next budget period. This means that, for budgeting purposes, cities and counties are dealing with two different certification years.

Here’s how it works: when you pass your budget for 2019 later this year, you will know the amount for which you are certified for 2019, but keep in mind that the first payment from that certification will arrive in December and will become part of the current year’s revenues. The amount you forecast for 2019 will depend on the October 1, 2018 certification, less the January distribution (received December 31), plus your “guesstimate” of your January 2020 distribution (certified October 1, 2019 and received December 31, 2019).

City-County Assistance Distribution Certification and Payment Dates					
		Statutory Date for Distribution	Actual Payment Date	Certification Date
2018 BUDGET	1st Quarter	April 1, 2018	March 30, 2018	October 1, 2017
	2nd Quarter	July 1, 2018	June 29, 2018	October 1, 2017
	3rd Quarter	October 1, 2018	September 28, 2018	October 1, 2017
	4th Quarter	January 1, 2019	December 31, 2018	October 1, 2018
2019 BUDGET	1st Quarter	April 1, 2019	March 29, 2019	October 1, 2018
	2nd Quarter	July 1, 2019	June 28, 2019	October 1, 2018
	3rd Quarter	October 1, 2019	September 30, 2019	October 1, 2018
	4th Quarter	January 1, 2020	December 31, 2019	October 1, 2019

Forecasts

Historical. The city-county assistance fund receives its revenues from the sales of real property, so when the real estate market is active – as it is now – funds are frequently sufficient to distribute. However, revenues decrease when there is a downturn in the economy, as was the case during the Great Recession and subsequent years. During that time cities and counties received a decreased distribution. Because of the weighted formula, there was enough to fully fund the counties during many of those years, but cities received only a proportion of their certified amounts.

Early in the Great Recession period the state operating budget provided transfers from the Public Works Assistance account that fully funded counties but reduced city distributions by 33%. In the subsequent budget cycle, the transfer from Public Works was eliminated leaving cities further behind and counties struggling to make up the loss of revenues. Over the past several years, cities have not reached their full certificated level and have fallen as low as receiving only 55%.

Real estate sales have been brisk throughout the state resulting in increased distributions, at least until the next downturn in the economy. As with other state shared revenues, this resource can also be impacted by the actions of the state legislature.

2018 Update. The total certification amount for 2018 was $9.5 million for cities and $5.3 million for counties. Of this amount, both cities and counties received their January distribution in calendar year 2017 (see distribution table) and you have now received the April and July distributions. According to the June 2018 ERFC forecast of real estate excise tax receipts, cities and counties are currently expected to receive $5.586 million from the real estate excise tax in the October distribution, which is paid out at the end of September. That would bring the total so far for 2018 to $19.1 million. There will be one more payment this calendar year – the January 2019 distribution, which cities and counties will receive at the end of December.

To update your forecast for 2018, you can go to the Department of Revenue (DOR) City-County Assistance webpage and click on 2018 City and County Distributions**.** These spreadsheets show the amounts for which each city and county were certified in 2018. Don't forget to adjust the estimated total for the distribution date differences explained in the table above.

The preliminary estimates for City-County Assistance distributions in 2019 will be available sometime in September. They will be posted on the DOR City-County Assistance webpage under **"2019 City and County Distribution Estimates."**

The June forecast provided by ERFC are estimating that the January 2019 distribution (December 2018 payment) will be $2,173,000 each for cities and counties. That would make the statewide total for the four payments for the

2018 budget year equal $18.6 million. For the first time in over a decade both cities and counties will receive 100% of their certification plus an additional distribution based on the formula in RCW 82.14.030(2).

2019 Forecast. As previously mentioned the DOR will release the estimates in September. The June 2018 ERFC forecasts indicate continued growth throughout the 2019 and 2020 forecast period. Both counties and cities should receive their full certification amounts.

The June forecasts from ERFC currently show $8.157 million each for cities and counties. You can calculate what your entity's percentage share will be by taking the amount in the column labeled "ESSB 6050 Amount" of the 2018 City and County Distributions for your entity and dividing it by the city or county total at the bottom of the column. Multiply that by $8.157 million to get your estimated dollar amount for 2019. This methodology assumes that your share of the last payment in 2018 (which will come from the October 1, 2018 certification) will be the same percentage amount as the first three payments and this is a reasonably good assumption for most entities.

Impact of Marketplace Fairness Act and SST Mitigation Elimination

The Marketplace Fairness Act has created a number of changes impacting local sales tax distributions and SST mitigation payments, as discussed on page 21. This will result in an increase in sales tax distributions for all cities and counties, but it will also result in the elimination of all SST mitigation payments effective October 1, 2019. The Department of Revenue does not expect the elimination of SST mitigation payments to have a significant impact on city-county assistance distributions.

However, for jurisdictions that currently receive city-county assistance but do not receive SST mitigation, or whose increased sales tax revenues will more than compensate for the loss of SST mitigation payments, there may be an increase in per capita sales tax revenues which could affect eligibility or distribution amounts. On the flip side, there are some jurisdictions that will be severely impacted by the loss of SST mitigation payments but will remain ineligible for assistance under the formulas above due to their assessed property values or per capita sales tax ratios.

Creating Your Estimates

If you cannot wait until the release of the preliminary certification in September to make your budget estimate for 2019, then take your entity's percentage share of the 2018 certification and multiply it by the estimated pot of city or county revenue for 2019, of $8.156 million. Keep in mind that this method will only put you in the ballpark. The September and October numbers will be the more reliable estimates, especially if you are one of those jurisdictions close to the limits on the distribution formula provided at the beginning of this discussion.

To give you an example, let's say you are a city with a population of 5,000 or less and your per capita sales tax on the first half-cent in the qualifying period was $63.00, just slightly less than $66.91 (the 55% equalization amount). You were certified for a distribution this year, 2018, but if your per capita sales tax increases beyond the 55% equalization amount of $66.91, you might not qualify for assistance in a subsequent year.

Another wrinkle in revenue forecasting is the timing of the preliminary certification. RCW 43.08.290(6)(d) states, in part:

> By September 1, 2010, and September 1st of every year thereafter, the department of revenue must make available a preliminary certification of the amounts to be distributed under this section...

A component of releasing the ESSB 6050 distributions is having the Implicit Price Deflator (IPD) for personal consumption expenditures, and what the drafter of the legislation did not realize is that the July IPD for personal consumption expenditures is not published until the third week of September. Therefore the "preliminary" certification is not available on September 1. As mentioned, the October release by DOR will be your most accurate estimate for next year's distributions.

Editor's Note: The real estate excise tax revenues and forecasts are the work of Eric Swanson of the Washington State Economic and Revenue Forecast Council (ERFC).

FIRE INSURANCE PREMIUM TAX

RCW 41.16.050 requires each municipality having a regularly organized full-time fire department with paid firefighters to establish a firefighters' pension fund. This fund is to consist of all bequests, gifts, or donations given or paid to the municipality for the firefighters' pension fund; a proportional share of the state tax on fire insurance premiums; property taxes collected under the provisions of RCW 41.16.060; interest on the investments of the fund; and any contributions made by firefighters themselves.

The state collects a 2% tax on the premiums of all insurance policies written. Of the tax collected on fire policies and the fire component of homeowner's and commercial multi-peril policies, 25% is distributed to cities and fire districts that have firefighters' pension funds.

The moneys received from the tax on fire insurance premiums under RCW 41.16.050 are distributed in the proportion that the total number of paid firefighters in the individual jurisdictions bear to the total number of paid firefighters in the state. This calculation is known as the "ratio value." Each year, on or before January 15, cities, towns, and fire districts must certify to the State Treasurer their number of paid firefighters and the Office of Insurance Commissioner (OIC) certifies the fire insurance premiums collected by March 31. These moneys are then distributed to the local jurisdictions at the end of May.

The fire insurance premiums certified for distribution by OIC for 2018 was $4,829,347.99, and the number of paid firefighters reported on January 15 was 4,539. This equates to a ratio value for 2018 of $1,063.97 per paid firefighter. This is almost identical to our forecast last year (0.1% lower than our estimate of $1,065.98). On May 31, distributions were made to 43 cities and two fire districts.

2019 Projection

While this appropriation has been the subject of debate in past legislative sessions, and as recently as last year, the short 2018 legislative session did not turn its attention to this state shared revenue, and current revenue indicators from the Economic Revenue Forecast Council (ERFC) are that revenues are exceeding forecasts by a small but comfortable margin.

The 2017-19 state operating budget fully funded this appropriation and we have developed an estimated ratio value for the 2019 distribution. Our estimate is based upon an assumption that premiums for fire policies and the fire insurance component of homeowner's and commercial multi-peril policies will continue to increase, and we have adjusted the factor to reflect rising interest rates and increased returns on investments for the insurance industry. We have also projected that the number of paid firefighters will modestly increase during this current period of economic growth.

Fire Insurance Premium Tax	
Eligible jurisdictions	All cities and fire districts with a regularly organized full-time fire department with paid firefighters
Estimated 2019 ratio value	$1,056.63 per paid firefighter
Payment received	In one lump sum on May 31, 2019
Revenue must be used for	Firefighters' pension fund

We want to remind our readers that these forecasts are estimates only. The actual figures will be calculated in 2019 based on the number of paid firefighters reported, fire insurance loss experience, and premiums paid.

SHARED REVENUE DISTRIBUTION CALENDAR

Shared revenues are distributed on the last business day of the month. Some are distributed monthly and others quarterly, while the fire insurance premium tax is distributed on an annual basis. See the chart below for a quick guide to when you will receive each distribution.

Shared Revenue Distribution Calendar

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Gas Tax	●	●	●	●	●	●	●	●	●	●	●	●
Increased Gas Tax			●			●			●			●
Multimodal Distribution			●			●			●			●
Liquor Excise Tax	●			●			●			●		
Liquor Profits			●			●			●			●
Marijuana Excise Tax			●			●			●			●
Criminal Justice	●			●			●			●		
Fire Insurance Premium Tax					●							
City/County Assistance			●			●			●			●

PER CAPITA SHARED REVENUE FORECAST TABLES FOR CITIES

The tables below include projections and estimates for both the 2019 and 2020 budget years. These are based upon current information that we have received from various state agencies. Variables considered were changes in population, known increases to certain revenues such as the fiscal growth factor for Criminal Justice, and revenue projections provided by WSDOT and ERFC for motor vehicle fuel taxes and liquor excise taxes.

Next year's legislative session will include the state's biennial budget. The Governor's Office and all of the state agencies are already working on this process and the Governor's budget will be released in December. It's hard to predict what may occur with state shared revenues and the following forecasts, but you can rely on MRSC to keep you informed on any significant changes that could impact your budgets.

Total Per Capita Distributions to All Cities and Towns 2015 to 2020

	2015	2016	2017	2018 Revised	**2019 Forecast**	**2020 Forecast**
Gas Tax	93,461,035	95,737,763	96,393,238	98,998,988	**100,255,037**	**101,743,764**
Multi-Modal Distribution		4,687,500	4,910,750	6,696,500	**6,696,500**	**6,696,500**
Increased Gas Tax		1,367,250	2,734,500	5,859,500	**5,859,500**	**5,859,500**
Liquor Profits	39,431,748	39,431,748	39,431,748	39,431,748	**39,431,748**	**39,431,748**
Liquor Tax	12,252,803	21,358,589	22,803,066	24,020,743	**24,782,007**	**25,910,542**
Marijuana - Per Capita Share Only			840,000	5,460,000	**4,200,000**	**4,200,000**
Criminal Justice–Special Programs	4,228,233	4,651,287	4,852,222	5,052,613	**5,254,718**	**5,497,486**
Criminal Justice–Population	1,252,810	1,378,159	1,437,696	1,497,071	**1,556,953**	**1,628,885**
TOTAL	$150,626,629	$168,612,296	$173,403,220	$187,017,163	**$188,036,463**	**$190,968,425**

Estimated Per Capita Distributions for Each City/Town 2015 to 2020

	2015	2016	2017	2018 Revised	**2019 Forecast**	**2020 Forecast**
Gas Tax	20.78	20.98	20.66	20.83	**20.72**	**20.71**
Multi-Modal Distribution		1.03	1.05	1.41	**1.38**	**1.36**
Increased Gas Tax	0.30	0.60	0.92	1.23	**1.21**	**1.19**
Liquor Profits	8.57	8.47	8.35	8.30	**8.16**	**8.02**
Liquor Tax	2.72	4.57	4.88	5.05	**5.14**	**5.27**
Marijuana - Per Capita Share Only[1]			0.24	1.53	**1.17**	**1.16**
Criminal Justice–Special Programs	0.95	1.02	1.04	1.07	**1.09**	**1.12**
Criminal Justice–Population[2]	0.28	0.30	0.31	0.32	**0.33**	**0.34**
TOTAL	$33.60	$36.97	$37.45	$39.74	**$39.20**	**$39.17**

1. Marijuana excise funds may only be distributed to cities/towns that do not prohibit the siting of any state licensed marijuana producer, processor, or retailer. Changes to local ordinances can potentially impact the per capita distribution amounts.

2. Minimum distribution of $1,000 per city/town, regardless of population.

See our online State Shared Revenue Estimator for a forecast tailored to your specific jurisdiction.

PER CAPITA SHARED REVENUE FORECAST TABLES FOR COUNTIES

The tables below include projections and estimates for both the 2019 and 2020 budget years. These are based upon current information that we have received from various state agencies. Variables considered were changes in population, known increases to certain revenues such as the fiscal growth factor for Criminal Justice, and revenue projections provided by WSDOT and ERFC for motor vehicle fuel taxes and liquor excise taxes.

Next year's legislative session will include the state's biennial budget. The Governor's Office and all of the state agencies are already working on this process and the Governor's budget will be released in December. It's hard to predict what may occur with state shared revenues and the following forecasts, but you can rely on MRSC to keep you informed on any significant changes that could impact your budgets.

Total Per Capita Distributions to All Counties 2015 to 2020

	2015	2016	2017	2018 Revised	**2019 Forecast**	**2020 Forecast**
Liquor Profits	9,857,936	9,857,936	9,857,936	9,857,936	**9,857,936**	**9,857,936**
Liquor Tax	2,543,700	4,858,654	5,077,720	5,427,047	**5,600,019**	**5,830,120**
Marijuana - Per Capita Share Only			1,260,000	8,190,000	**6,300,000**	**6,300,000**
TOTAL	$12,401,636	$14,716,590	$16,195,656	$23,474,983	**$21,757,955**	**$21,988,056**

Estimated Per Capita Distributions for Each County 2015 to 2020

	2015	2016	2017	2018 Revised	**2019 Forecast**	**2020 Forecast**
Liquor Profits[1]	4.02	3.98	3.92	3.86	**3.81**	**3.79**
Liquor Tax[1]	1.02	1.91	2.02	2.12	**2.17**	**2.24**
Marijuana - Per Capita Share Only[2]			0.21	1.32	**1.03**	**1.02**

1. Liquor distributions are based on unincorporated population.

2. Marijuana distributions are based on total population. Funds may only be distributed to counties that do not prohibit the siting of any state licensed marijuana producer, processor, or retailer. Changes to local ordinances can potentially impact the per capita distribution amounts.

See our online State Shared Revenue Estimator for a forecast tailored to your specific jurisdiction.

Timely Budget Articles

Assessing Your Budget Document

Each year as an opening exercise for the annual AWC Municipal Budgeting and Financial Management workshop, we have the participants complete this assessment checklist of their current budget document. For many, this brief exercise often starts the evolution of the budget document from just numbers on a page to a budget document that reveals a story about your jurisdiction.

The questions have been developed over the years from experts in the area of municipal budgeting. It is intended to give you ideas that will enhance the budget document, but it is not the only evaluation tool available. In fact, the GFOA has a *Distinguished Budget Presentation Award Program (Budget Awards Program)* that goes into much further detail.

But this assessment tool is intended to help you evaluate and make small steps over the course of several years to improve the content of your comprehensive budget document, with the goal of providing your reader with a more transparent and easily understood budget document.

This tool is located on our website at mrsc.org/budgeting, but we thought it might be a great way to close out the 2019 Budget Suggestions publication–our **75th anniversary edition.**

BUDGET DOCUMENT ASSESSMENT

Point Range	Assessment Question	Score
0 - 2	Does the budget include a table of contents and a glossary of terms?	
0 – 2	Does the budget describe the organization? (such as an org. chart)	
0 – 4	Does the budget message address major strategic issues (assumptions, trends, problems and opportunities)?	
0 – 2	Does it include a clear mission or “broad goals” statement?	
0 – 3	Does the budget include goals for the year / biennium - including how they connect to strategic long term goals?	
0 - 3	Are relevant financial policies included and referenced?	
0 – 3	Does the budget include a summary of major revenues, and expenditures for the at least a three year period (prior year actual, current year, and proposed budget)?	
0 - 5	Is the overall financial plan clear? Is there a forecast of at least 3 years?	
0 – 4	Is there a chart showing staffing by department which provides historical information (comparative) such as FTE’s?	
0 – 4	Does the budget document discuss reserves (policy, targets, levels, planned uses, plans to restore)?	
0 – 4	Is there a description of the programs and activities provided that includes measurable objectives? Are they related to the goals?	
0 – 3	Does the budget discuss current debt levels by debt types (general obligation, revenue, assessment) including comparisons to legal limits?	
0 – 4	Does the budget include a list of capital projects for the year? Does it discuss how the improvements will impact future operating budgets?	
0 – 2	Does the budget convey its messages clearly such as with graphs, tables or other means throughout the document?	
0 – 2	Is the overall budget format easy to follow and use?	
0 – 4	Would a citizen or an elected official feel this is a user-friendly budget?	
0 – 2	Does the budget document provide the reader with opportunities to gain further information?	
53 possible	**TOTAL**	

General Comments and purpose regarding this assessment – The order of the questions typically represents the order this information is found in budget documents. The following is a description of the ideals for each section.

Does the budget include a table of contents and a glossary of terms? *A simple table of contents should be included. A glossary of terms unique to budgeting and to your particular organization should also be included. An index is a bonus.*
Does the budget describe the organization? (such as an org. chart). *An organization chart of the entire government is needed but often not enough to describe the organization to an "outsider". Add defining narrative to help bridge the gap.*
Does the budget message address major strategic issues (assumptions, trends, problems and opportunities)? *The most important element of your budget is your message. Here you can incorporate other elements (see below) but should be sure to tell your story. Describe what you emphasized (and what you de-emphasized) in this budget and why! Talk about more than numbers.*
Does it include a clear mission or "broad goals" statement? *What is the purpose of your organization? If you haven't discussed it and written it down, there is likely confusion on that point. Be sure to include it in the budget!*
Does the budget include goals for the year / biennium - including how they connect to strategic long term goals? *A great budget message element. Describe what things of significance you hope to accomplish during the budget period.*
Are relevant financial policies included and referenced? *At a minimum discuss reserve, revenue, budget and expenditure policies. Don't include (but you can make reference to) non-budget policies (such as purchasing or investments). Describe where this budget might deviate from your policy guidance (or clearly state that it is consistent with policy).*
Does the budget include a summary of major revenues, and expenditures for the at least a three year period (prior year actual, current year, and proposed budget)? *Include fund balances as well. This is your "financial plan". Fewer, simple charts are best! Graphs are great but need some captions to interpret them – and make your points.*
Is the overall financial plan clear? Is there a forecast of at least 3 years? *Along with the financial summary, include a forecast of the major operating funds. Keep to high level account descriptions (avoid too much detail). Summarize into thousands.*
Is there a chart showing staffing by department which provides historical information (comparative) such as FTE's? *Staffing is often the most significant cost. Also, this can help provide insight into how the government is organized.*
Does the budget document discuss reserves (policy, targets, levels, planned uses, plans to restore)? *Fund balance changes of more than 10% should be explained. Uses of fund balance in your budget should be explained as well.*
Is there a description of the programs and activities provided that includes measurable objectives? Are they related to the goals? *"Narratives" take many forms. Basically describe what you are doing, why you are doing it and who is the customer. This can be organized by department, fund, program or community priority.*
Does the budget discuss current debt levels by debt types (general obligation, revenue, assessment) including comparisons to legal limits? *Debt or other legal / financial obligations can be a significant budgetary and financial issue. Transparency is the key – but again at a summary level. What debt exists and why? How does it compare to legal limits and ability to pay?*
Does the budget include a list of capital projects for the year? Does it discuss how the improvements will impact future operating budgets? *Capital budgets are challenging to present in clear and simple ways. However a few schedules of sources and uses of funds, along with descriptions of your largest projects works well. Be sure to discuss operating budget impacts.*
Does the budget convey its messages clearly such as with graphs, tables or other means throughout the document? *Budgets can be intimidating – work to avoid jargon, long-running paragraphs of text, too many details and other potential distractions.*
Is the overall budget format easy to follow and use? *Consider a "highlights" or other ways to convey the most important points. Most casual readers will look at the message and a few additional pages. Use this limited attention well!*
Would a citizen or an elected official feel this is a user-friendly budget? *A "budget in brief" or some other summary is often helpful. Put the hot-button issues right up front. Be clear about what you are proposing – in simple terms.*
Does the budget document provide the reader with opportunities to gain further information? *Provide references to your web site, other documents, staff contacts, and other ways that someone can find out more about the budget or a related topic.*