Shoreline City Council

July 11, 2016

Re: Levy Lid Lift

To the members of the Shoreline City Council,

On Friday I sent an email detailing, among other things, how many of the numbers provided by city staff are inaccurate. Today I want to add one more to that list.

City staff's revenue projections for the next 10 years, based on property taxes rising at the rate of inflation, show an average annual increase of 1.7%, while their inflation projection is about 2.3% (I haven't seen the presentation available online, except for a YouTube video that doesn't include the relevant chart, but the inflation projection was made during the public forums on May 18th & 25th). I don't know what their basis is for the 2.3% inflation rate, but let's accept it and see where it takes us.

In 2015, property taxes currently represented 29.2% of the revenue stream, utility and franchise fees represented 17.7%, and sales taxes represented 21.2%. Those three sources combined for 68.2%, or over 2/3, of total revenues.[1]

Since, in this scenario, we are assuming a levy lid lift this year, and another one six years from now, where property taxes will rise with inflation, we set property tax revenue increases to 2.3% per year.

Utility and franchise fee tax revenues should actually grow at a rate very close to inflation. Price increases should not lag behind inflation, as energy costs are currently below historical trends. Usage per customer might decline with the continued implementation of conservation and efficiency measures, but population growth should roughly balance that. I don't yet have enough information to compare revenues for the past decade with inflation, as the year-end reviews for 2005[2] and 2015 (see footnote 1) show some differences that indicate major changes in tax and fee rates and/or other policy changes. Let us use a conservative figure of 2.2% per year.

Sales taxes should rise faster than inflation. Prices should roughly match inflation, and growth should generate additional revenue. Indeed, from 2005 to 2015 sales tax revenues rose by an aggregate 29.3% (see footnotes 1 and 2), while inflation lagged behind at 27.3%.[3] Let us be conservative and assume 2.4% per year.

1 2015 Year End Financial Report, http://www.shorelinewa.gov/home/showdocument?id=25939, page 3
2 2005 Year End Financial Report, http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2006/staffreport032706-9a.pdf, page 7
3 Financial Sustainability Citizen Advisory Committee initial presentation, February 11, 2016, http://www.shorelinewa.gov/home/showdocument?id=25151, page 8

If 2/3 of the revenue stream can be expected to keep up with the 2.3% projected inflation rate, then in order for the city's 1.7% projection for all revenues to be accurate the remaining 1/3 must lag seriously behind. In fact, they must show growth at only about half of one percent per year. The problem is that the city expects significant growth over the next decade, which means growth in permitting fees, user fees, etc. It's extremely difficult to imagine their projections being anywhere close to accurate. Indeed, given the inaccuracies that we have seen, we are fairly safe in assuming that revenue growth will be significantly larger than projected.

I understand the city staff's desire to project pessimistically, as by following pessimistic projections for both revenues and costs we increase the odds that we will have enough revenue to pay for budgeted services. There is, however, a limit to that pessimism beyond which it reaches the ridiculous; I submit that city staff's current projections are way over that line. As a result, their claims regarding the need for a massive property tax increase, not to mention an additional car tab fee and the implementation of a B&O tax, are similarly ridiculous.

I look forward to seeing tonight's meeting.

Best regards,
Dan Jacoby
Shoreline