From:	Debbie Tarry
To:	Dan Jacoby; Keith Scully
Subject:	RE: Levy Lid Lift
Date:	Monday, July 25, 2016 12:08:58 PM

Hi –

I wanted to provide some additional information that provides a more complete picture and accurate timelines especially in response to #2. It is not my intent to get into a back-and-forth via e-mail, but I do want people to have the right information as each individual determines their position on issues.

#2 – Second Factor: It is important to not only talk about when revenues/taxes were increased, but also times when the City has seen a reduction in revenues/taxes because of actions by state-wide initiatives, the State Legislature, or simply a change in economic conditions (we experienced two recessions between 2000 and 2010 along with the dot.com bust in 2004/2005). In some cases it reduced the fees/taxes paid by taxpayer and new tax revenues implemented by the City were to replace those lost funds (so in some respects taxpayers ended up paying a different fee/tax – but not all of it was "new" taxes paid, nor did it increase the overall revenue base of the City). I'm sure everyone recognizes that even though fees/taxes were eliminated, governments did not suddenly have less roads, parks, or police incidents to maintain or respond to. So below is a timeline of some of the major changes/events. Obviously more detail could be added, but given that this is a quick turnaround wanted to give you at least some key information:

- **2000**: Initiative-695 (an early Eyman Initiative) passed on a state-wide ballot that repealed the motor vehicle excise tax (MVET) and instituted a $30 car tab fee. MVET had been assessed based on the value of vehicles and generated substantially more revenue state-wide than the $30 car tab. Although the I-695 was found to be unconstitutional, the 2000 State legislature decided that voters had spoken and repealed this tax. The MVET had been distributed to Shoreline in these primary ways – sales-tax equalization, per capita MVET for general operations and criminal justice and local option vehicle license fee for funding street maintenance. The annualized loss of revenue to the City of Shoreline was just under $3 million ($2.975 M). The State Legislature stated that they would provide a permanent back-fill that never materialized as they dealt with State budget issues. The State legislature did provide some back-fill in 2000 ($722,000) and 2001 ($1.44M). The City instituted a 6% utility tax on natural gas, telephone, cellular telephone, and garbage and 1% utility tax on cable as a result to help fill the gap created by I-695.

- **2001:** Passage of Initiative 747 (I-747 another Eyman initiative) which changed the limitation of annual property tax levy increases from 6% to the lower of the IPD or 1% unless a larger increase was approved by voters. Shoreline's levy increases were limited to the 1% from 2001 through 2010.

- **2002:** A new franchise agreement was negotiated with Ronald Sewer District to increase the franchise payment starting in 2003. The overall increase was approximately $300,000 annually.

- **2003:** Passage of Initiative 776 (I-776 another Eyman initiative) which eliminated the local $15 vehicle license fee collected by King County and distributed to cities based on a per capita formula. Loss to Shoreline was approximately $500,000 of annual transportation system maintenance funding.

- **2005:** City lowered gambling tax rate from 11% to 10% (approx. $300,000 annual decrease); instituted a 6% utility tax on the City's storm drainage (surface water) utility ($150,000 annual revenue)

- **2006:** Initiative 901 (I-901) was a smoking ban in buildings open to the public. This applied to Shoreline's casinos, but did not apply to tribal casinos. Local casinos saw a dramatic drop in revenue and activity as a result. Impact to Shoreline has been a drop in gambling tax from the high of $3.32 million in 2004 to current annual projected revenue of approximately $1.6 million. So an approximate $1.7 million decrease.; The City took over payment of street lights within the City. A large portion had previously been paid by residents directly to Seattle City Light through district assessments. There was no revenue source that came along with this decision. This cost pays for the electricity and maintenance of 2,946 (currently 3,067) street lights in Shoreline that illuminate the right-of-way. This was done as the City Council felt that right of way illumination was a public service that should be provided for by the City (out of the City's general fund). This cost was estimated at $183,000 annually, but by 2016 has grown to a cost of $509,000 annually.

- **2007:** City increased cable utility tax from 1% to 6% ($500,000 annual increase)

- **2008:** City instituted a phased in 6% contract payment on electric distribution revenues (approximately 35% of the total electric revenues from SCL). The City had previously been receiving 6% contract payment on the power portion which was 65% of the total electric revenues. The phased in approach was to assess a 3% contract payment on the electric distribution revenues starting April 1, 2008 and then go to the full 6% on January 1, 2009. The total 6% fee on the distribution revenues generated approximately $550,000 in annual revenue for the City.; The King County Executive granted a five year contract for deputies that included a 5% COLA annually for 2008-2012. City's cost for police services, although still a prudent financial contract, escalated substantially during the five year period.

- **2009:** City adopted the $20 Transportation Benefit District vehicle license fee – collections to start in 2010. Fee was projected to generate $600,000 annually for transportation needs and City dedicated revenues for road surface maintenance.

- **2010:** Voter passed ballot measure on November General Election for a levy lid lift. Set levy rate at $1.48 starting in 2011 and allowed for CPI increases annually for the following five years. In 2013 the actual property tax levy decreased because of the dramatic drops in assessed valuation. As the recovery moved forward a good deal has been regained, but overall over the six years of the levy lid lift the City collected approximately $2 million less than had been projected back in 2010.

- **2012:** In 2011 I-1183 passed that privatized the distribution and retail sale of liquor effective June 1, 2012. In 2012 the State Legislature voted to divert liquor excise tax revenue that would normally be distributed to cities and counties to the State General fund for one year beginning in October 2012. Further reductions were adopted for 2013. Between 2013 and 2015 collections were reduced as a result by approximately $200,000 annually. Although 2017 collections are projected to be close to what was collected in 2012, there has not been growth from this revenue source as the State Legislature has diverted funds to assist with the State's budget.

- **2016:** Proposed renewal of the 2011-2016 property tax levy lid lift for 2017-2022. Recommendation to reset the levy rate to $1.39 with annual CPI increases for the following five years.

- **2017 and beyond.** As we all know the economy has been improving, but with that being said we know that the economy goes in cycles and as previously mentioned from 2000 to 2010 we experienced two recessions.

As far as Factor #3, I disagree with the assessment that staff takes the lazy way out on projections. Also in 2016 the City has already granted the following TIF exemptions (totaling $151,440 – so we underestimated the impact so far for 2016) per the business exemption adopted earlier this year by the City Council:

- Walgreens Add/Remodel (general retail to a medical office) $2,938.17
- Starbucks Parcel 6 at Aurora Village (business) $129,083.64
- Dr. Spain 19929 Ballinger (General retail to a medical office) $19,417.92

I hope that you find this information helpful. I will provide this information to the full City Council.

Debbie Tarry
City Manager
City of Shoreline
17500 Midvale Ave N.
Shoreline, WA 98133

From: Dan Jacoby [mailto:dan@danjacoby.com]
Sent: Sunday, July 24, 2016 6:11 PM
To: Keith Scully
Cc: Debbie Tarry
Subject: Re: Levy Lid Lift

Dear Councilmember Scully,

Thank you for keeping an open mind, and for asking city staff to look at my proposal. Unfortunately, my current job doesn't allow me a lot of free time, so I'm having to put things together in my few off hours. Nevertheless, I believe that your questions deserve a fairly detailed response, so I am taking the time needed to provide one.

There are four factors in play here. The first is the size of this year's levy lid lift. The second is the fact, and problem, of spiraling taxes in Shoreline. The third is the reliability of numbers prepared and presented by city staff. The fourth is public opinion.

On factor #1, while I understand that the dollar difference between the city's proposal and mine will amount to just over $2/month for a median value homeowner, it is really the second factor that is the problem, which is why there needs to be a change in approach as soon as possible. And since the next major tax increase proposal won't come around for another six years (if this year's levy lid lift passes), now is the time.

Regarding the second factor:

When we go back six years, we had a levy lid lift that amounted to just over a 30% local property tax increase. Much of that (possibly all of it) was really "catching up" to eight or nine years of Eyman-imposed 1% annual increases, which is why I haven't made it a part of my arguments, either publicly or privately. During that time, however, the city raised cable TV taxes from 1% to 6%, raised taxes on electricity to 6%, and imposed a $20 car tab fee. And now, city staff is preparing plans to increase the car tab fee by another $6 and institute a B&O tax. On top of that, they talk openly about another property tax increase in six more years. In addition, unless Senator Chase's bill passes, the city can already raise taxes on the storm water utility, and will soon be allowed to raise taxes on the sewage utility.

I realize that projected cost increases are higher than projected inflation levels, but all I'm seeing regarding a "solution" is higher and higher taxes. There comes a time when the taxes become untenable, especially when placed on top of fast-rising housing costs, and people either start moving out, or refuse to move in, because of them. Indeed, the fact that Shoreline's population growth rate is lagging well behind predictions is an indication that this is already happening. Are there potential cost savings? I don't know yet. I heard what Mayor Roberts said about various cost savings that have been implemented in recent years (including putting off spending in some cases), but he was talking about a minor portion of the roughly $40 million budget.

In short, we simply cannot continue to raise taxes over and over again. It must stop. My proposal gives us the time to find another solution, or set of solutions.

Factor #3:

I wish that I could have gone into more detail in my proposal. Unfortunately, the numbers provided by city staff regarding past spending (through a decade of year-end financial reports) do not match up with the numbers provided going forward, specifically in the 2016 budget presentation. The categories are different, and repeated attempts to reconcile them have been rebuffed or ignored (if necessary, I can provide the emails).

We do know that city staff initially claimed that we needed a $1.48 rate because the projected that this year's property values would be 3.1% higher than last year's. I understand that the 3.1% number was held over from projections made a few years back, when property values were going nowhere, but to keep using that number when it was clear that property values have been skyrocketing, and continue to do so, is ridiculous. Nobody, except apparently city staff, was surprised by the preliminary numbers coming from the County Assessor's office.

Or take a look at the 2016 budget proposal. In that document, city staff also takes the lazy way out on projections of future revenues from several sources, including: Taxes on natural gas, telephone service, sanitation and cable TV (page 77); Franchise fee revenues from cable TV, water and electricity (page 78); Recreation fees (page 79); Liquor taxes (page 81); and Right-of-way permit fees (page 84). In all these cases, their projections are for revenue increases below the inflation rate, with no rationale behind some of them, while also projecting revenue increases for items that have shown constant drops over the past several years (such as natural gas taxes).

Also note that city staff claimed during the debate over reducing the TIF on businesses that reducing the fee by 50% would cost the city $100,000/yr. (Staff report, March 14, 2016, page 8a-1) In the one full year that the TIF was in effect, 2015, total revenues from businesses were no more than about $180,000, and may be less (depending on whether Adult Family Homes count as exempt businesses under Ordinance 717, a question on which, absent definite information, I give benefit of the doubt). Of that roughly $180,000, the majority, or $95,000, was from one single source that was not likely to be renewed or replace – the new Swedish Richmond Beach Primary Care Center. Their numbers were wrong again.

One more thing – in my proposal I use numbers for property tax revenues that include nothing for new construction. It was not an oversight on my part; I chose to leave that out not as my way of "playing it conservative" on the projection for that part of revenues, but because I didn't have the time to research and project how much new construction would bring in. But any new construction over the next six years would provide extra revenues and a resulting larger cushion.

I realize that the Council is officially part-time and composed of nonprofessionals (regarding the running of a city government & its agencies), while staff is full-time and trained professionals, so you should be able to rely on them for accurate information. Unfortunately, there are too many instances, including on this issue, where their reliability is easily questioned.

Factor #4:

Much as you began and ran most of your campaign last year by talking with people across the city, I began my journey down this path by talking with people too. At first, I said that the city wants to raise property taxes by 14%, to which everyone I spoke with had a strong negative reaction. Responding to complaints that I was couching my terms in a way that was guaranteed to get negative reactions, I merely mentioned that the city wants to raise local property taxes, adding the word "local" and not mentioning the amount – and got the same, nearly universal results.

The fact is that it probably won't take an organized effort to defeat any levy lid lift this year, much less one that raises local property taxes. Indeed, even if you come down to my proposed $1.31 level you could have a hard time getting it passed, even though it would be a lower levy rate than this year's rate. I would be willing to lend my voice in support of it, however, and will get most of my "army" to support it as well, leaving the opposition with no organized effort. I believe that without an organized effort it will pass.

Finally, we have city staff's own supposedly pessimistic projection that without a levy lid lift we would still have two years of budget surpluses during which we can figure out what to do, so it's not like defeating this levy lid lift would put the city's budget in peril. Heck, even if it took three years to find a new balance we could pull from the reserve fund without depleting it too much (although I wouldn't recommend it).

As I've said before, you, I, the rest of the Council, and city staff all agree that at some point a levy lid lift is necessary because 1% property tax revenue increases aren't enough. Most of the people who have gotten involved in this understand that as well. We want something that we can vote for. But a double-digit local property tax increase isn't necessary, and it won't win in November. I hope you will decide to support the lower rate so that we can all move forward together.

Best regards,
Dan

> On Jul 24, 2016, at 12:59 PM, Keith Scully <kscully@shorelinewa.gov> wrote:
>
> Hi Dan,
>
> Thank you for your hard work on the FSCAC, and your continued efforts, organizing, and research.
>
> For me, the goal is to get the levy as small as we can while still funding city services. And, we have to insure a bit against risk, because there's an element of uncertainty in any levy since we're stuck with it for six years and there are few viable alternative funding sources. The last thing I want to do is have to either cut crucial services or turn to a more regressive form of taxation.
>
> I'm keeping an open mind until all the debate is done on Monday, and I'm asking staff (city manager Tarry cc'd on this email) to specifically respond to your proposal in their report tomorrow, if they hadn't planned to already.
>
> I want to point out, though, that the difference between what you're proposing and staff's current recommendation is small, both in terms of the rate percent and the total impact on homeowners. If the Council votes to put staff's recommendation on the ballot, there won't be an option for citizens to vote for a lower percent - it will be either impose the levy as is, or drop it entirely. If we drop it entirely, we have to cut essential services. While I know you are "raising an army", I would hate to see you throw out the baby with the bathwater and fight against the levy because you think the rate should be 8 cents lower. I appreciate your dedication, hard work, and organizing skill; there are plenty of progressive causes in Shoreline that I would love to have you as an ally on.
>
> Thanks again,
> Keith
>
> Keith Scully
> Councilmember, City of Shoreline
> Sent from my iPad

On Jul 22, 2016, at 8:11 AM, Dan Jacoby <dan@danjacoby.com> wrote:

Dear Councilmember Scully,

As you know, I am leading the charge, not against a levy lid lift, but against the proposed size of the lift (a nearly 15% increase in local property taxes). I recently submitted some numbers that not only demonstrate that we don't need such a large tax increase, but also propose a much smaller increase that is still substantial (8.25%).

You also know that I am raising an army that is gearing up to actively oppose this tax increase if the Council chooses the larger number. Having talked with dozens of Shoreline residents, many of whom I just happened to meet, I am not even certain that the current staff proposal would pass on its own; it certainly won't pass when we get through campaigning against it.

You should also know that the specifics of my campaign plan are based in part on email exchanges I have had with the PDC. I know exactly what I have to do to stay within campaign finance laws.

I urge you to take the position that the $1.39 currently being pushed by city staff will fail, leaving us with a levy rate for next year of just over $1.22, and resulting in a shortfall of close to $1.5 million. If you adopt my proposed $1.31 rate, it will almost certainly pass, especially as word gets around that we "beat back" a proposed double-digit increase.

I am happy to discuss this with you. My work schedule doesn't allow for time for an in-person meeting, but you can reach me by phone at 917-667-2756.

Best regards,
Dan Jacoby