PHASING AND FINANCING OPTIONS

CAPITAL FUNDING CONTEXT

Any project within the Facilities Plan needs considered within the context of the City of Tukwila's current fiscal situation and identified capital improvement program. **Appendix E** presents an analysis of the City's current fiscal situation, hereafter referred to as "*Situation Assessment*," which provides context on the City's fiscal position. BERK also used the City's existing Capital Improvement Program (CIP) as context to support a conversation about the relative priority of facility investments compared to other capital needs.

The *Situation Assessment* describes the City's current operating and capital funding situation as well as projected changes. The following provides an update to the capital funding priorities established in the 2013-2018 Six-Year CIP with the 2015-2020 Six-year CIP.

2015-2020 Six-Year Capital Improvement Program Funding

Figure 1 summarizes the City of Tukwila's current six-year CIP, as well as capital needs identified beyond the six-year planning period. The City has identified approximately $70.9 million in capital projects (outside of the facilities improvements) for completion over the next six years and approximately $297.8 million in total identified capital project needs.

FIGURE 1: SUMMARY OF SIX-YEAR CAPITAL EXPENDITURES AND REVENUES, 2015-2020 (NOT INCLUDING ENTERPRISE FUNDS. IN MILLIONS)

	2015-2020 6-Year Total	6-Year Percent of Total	Beyond 6 Years	Beyond 6 Years Percent of Total	Total Identified Cost	Percent of Total
Capital Expenditures						
Residential Streets	$13.86	20%	$7.51	3%	$21.37	7%
Bridges & Arterial Streets	$48.76	69%	$122.40	54%	$171.15	57%
Parks & Recreation	$4.87	7%	$24.83	11%	$29.70	10%
Facilities	$2.25	3%	$52.25	23%	$54.50	18%
General Improvements	$1.20	2%	$0.20	0%	$1.40	0%
Fire Improvements	$0.00	0%	$19.69	9%	$19.69	7%
Total Expenditures	**$70.94**	**100%**	**$226.87**	**100%**	**$297.81**	**100%**
Funding Sources						
City Operating Revenue	$14.35	20%	$105.92	47%	$120.27	40%
Grants	$31.16	44%	$39.31	17%	$70.47	24%
Impact Fees	$1.03	1%	$14.81	7%	$15.84	5%
Loans/Bonds	$12.25	17%	$57.52	25%	$69.77	23%
Mitigation	$0.98	1%	$0.02	0%	$1.00	0%
MVFT	$0.00	0%	$0.00	0%	$0.00	0%
Other	$11.18	16%	$9.29	4%	$20.47	7%
Parking Tax	$0.00	0%	$0.00	0%	$0.00	0%
REET	$0.00	0%	$0.00	0%	$0.00	0%
Total Funding	**$70.94**	**100%**	**$226.87**	**100%**	**$297.81**	**100%**

Source: City of Tukwila, 2015; and BERK, 2015.

SUMMARY OF CAPITAL EXPENDITURES

- Transportation projects, including those for residential streets and bridges and arterial streets, comprise the largest portion of near-term capital needs making up approximately 89% of total identified costs.
- Parks and Recreation is the next largest portion, comprising about 7% of total identified costs followed by facilities at 3% of total identified costs.
- General Improvements and Fire Improvements make up a smaller portion of overall capital costs. All major improvements to fire facilities are currently planned to occur beyond the six-year CIP.

SUMMARY OF FUNDING SOURCES

- The majority of funds planned for all projects in the CIP (40%) come from City operating revenues, which primarily support transportation and parks and recreation projects. Over the long term, city operating revenue allocations for capital improvements may decline as Tukwila is projected to move from having a surplus of operating revenues to a shortfall, as discussed in the *Situation Assessment*.
- Grants are programmed to pay for approximately 24% of capital projects in the long term.
- The City plans to use financing, including loans and bonds, for about 17% of project costs over the next six years.

- "Other" funding sources include donations and contributions, developer contributions, and sale of existing property.

FUTURE FACILITIES FUNDING IMPLICATIONS

The analysis of the CIP shows that the City has identified many capital needs beyond what it is able to pay for within the next six years. These additional projects total approximately $226.8 million, and while funding sources are identified in the CIP, the mix in funding sources between the six-year programmed projects and the longer-term projects shows the uncertainty in the long-term funding picture.

- About 47% of projects beyond six years are estimated to be funded by city operating revenues, compared to 20% for near-term projects. Allocating this much discretionary funding to capital investments will be challenged by an operating shortfall that is projected to start in 2016. With operating costs increasing faster than operating revenues, the general fund budget will be pressed to support general operations.
- The City has reduced its reliance on grants (44% for the 2015-2020 CIP, compared to 54% in the 2013-2018 CIP). Grants are applied for and awarded on a project-by-project basis, and are most commonly used in transportation and parks and recreation projects. Garnering additional grants to support transportation needs would free up general capital and operating revenues for use on other capital projects.
- The City has previously issued bonds to finance certain capital projects. Current bond capacity to meet facilities needs is limited by existing bond debt, but additional capacity will free up as bonds are paid. Additionally, it means some CIP funding is already supporting debt service. Additional debt service will constrict the City's ability to make new capital investments going forward.

PROGRAM COSTS

With a clear picture of the City's fiscal position and the relative prioritization

Subsequent analysis will evaluate the full life cycle costs associated with potential or preferred financing options determined by the City. The analysis will factor in differences in financing costs (including interest rates, bond issuance fees, and management fees) of the finance options and how the options change the impact to the City's annual budget (the effective annual cost to the general fund).

FINANCING OPTIONS

The City requires significant investment to improve the City's municipal service facilities to an adequate state. The magnitude of the projects identified to remedy facility deficiencies are too great for the City to pay for upfront or even on a pay-as-you-go basis.

Given the City's current fiscal position and the existing deficiencies in the its municipal service facilities, the City will likely need to secure funds using debt to invest in facilities improvements in the near-term, which will be paid back over time. This debt option would allow the City to improve its facilities at a rate that could not be supported by operating surpluses alone, reduce the risk to public safely to which the City is currently exposed given the condition of its municipal service facilities, and allow the City to make facilities investments without delaying investment in the other capital needs identified in its CIP. Additionally, financing at least a portion of the projects would align the projects' payees with the beneficiaries (e.g., ratepayers benefiting from services carried out in the Public Works building would be paying for that building). Without the use of debt, today's payers would be funding facilities investments for future beneficiaries.

There are a number of debt options available to the City; this section describes three of the most common for municipal facility investments in Washington State. Additionally, there are several funding tools that could be employed to bring in additional revenues to ensure that facilities do not consume so much of the CIP allocation that other important projects are left unfunded.

Beyond the financing and funding of these projects, the City always has the option to reprioritize its CIP to eliminate projects and free up CIP funding capacity for these facilities projects. The City's CIP is already strategically prioritized, as there are millions of dollars more of infrastructure projects identified than can be feasibly funded over the next six years.

LIMITED TAX GENERAL OBLIGATION (LTGO) BONDS – (NON-VOTED)

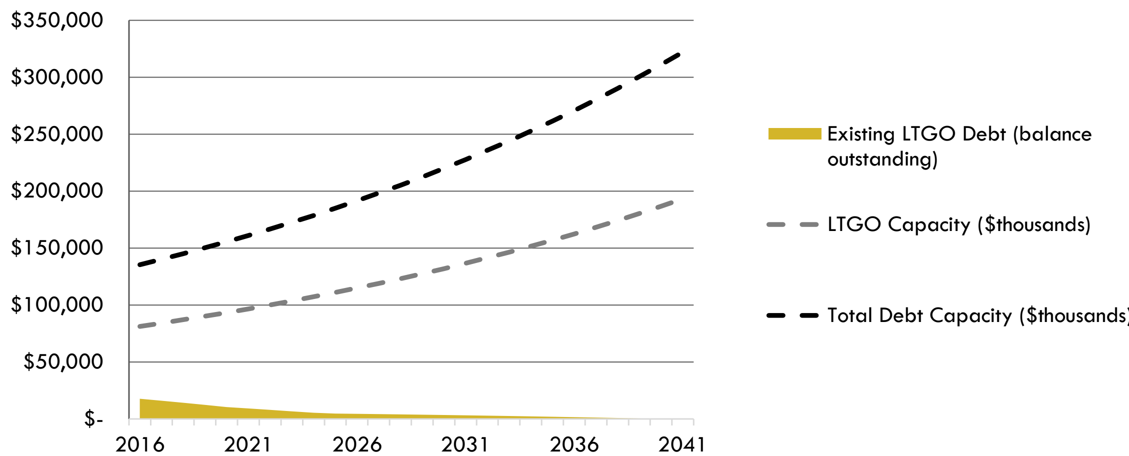
Limited tax general obligation bonds (LTGO), also referred to in Washington State as "councilmanic" bonds, do not require voter approval and are payable from the issuer's general fund and other legally available revenue sources. LTGO bonds can be used for any purpose, but funding for debt service must be made available from existing revenue sources. Tukwila has debt policies that govern the use of this debt, and there are constitutional and statutory limits on a municipality's authority to incur non-voted debt. Tukwila's debt policies are documented in "City of Tukwila Debt Policy," which was passed via councilmanic resolution (Resolution No. 1840) in September 2014. The state constitution limits non-voted municipal indebtedness to an amount not to exceed 1.5% of the actual assessed valuation within the City.

City Credit Ratings

An additional consideration related to taking on additional bond debt, is that the City's credit rating is affected by many factors including the amount of debt capacity utilized. We can't estimate how a specific bond issuance will affect the City's credit rating, however, it is a factor to consider in the amount of debt issued to support this facilities plan.

Tukwila currently has $32.4 million in non-voter approved debt outstanding and has a significant debt issuance capacity for LTGO debt. The remaining debt capacity as of May 2015 for LTGO Bond Debt was $41.1 million.

FIGURE 2: EXISTING DEBT DEMAND COMPARED TO TOTAL DEBT CAPACITY, 2016-2041
(NOT INCLUDING ENTERPRISE FUNDS. IN MILLIONS)



Source: City of Tukwila, 2015; Rice Fergus Miller, 2015; and BERK, 2015.

Based on the overall CIP needs, a conceptual bond financing plan was developed for both phasing options which found that both options could be completed within existing LTGO debt capacity. However, as LTGO bonds are merely one financing option, it is still prudent of the City to consider additional financing options as part of its facilities phasing plan.

Considerations:

- One of the benefits of LTGO bonds is that they can be passed by councilmanic ordinance.
- LTGO bond capacity is substantial, but limited. Currently, the City of Tukwila has $41.4 million in LTGO bond capacity. Given the flexible nature of LTGO debt it is an important tool for the City's ability to react to unexpected expenses. While the City has enough capacity to support either facilities option with LTGO dept, deploying too much of the City' bond capacity will limit its ability to respond to unexpected expenses.
- Since bonds are debt, the added costs of interest will increase project costs long term.
- The timing of repayment of bonds for these projects would align the projects' payees with the beneficiaries.

63-20 FINANCING

63-20 is a method of obtaining tax-exempt financing that allows public bonds to be used to construct public facilities if they are secured by a lease agreement. A nonprofit corporation issues tax-exempt debt on behalf of a political subdivision for the purpose of financing facilities. Generally, these bonds require a credit-worthy private developer that is willing to enter into a lease to support the bond offering. The nonprofit corporation also manages and operates the building over the lease term. The facility is transferred to the government entity once the debt is retired. The tenant is required to be either a governmental entity or a charitable organization. A minimum 90% of the space must be occupied by the governmental entity, as specified by "private use" requirements.

63-20 financed bonds have a higher interest rate and issuance fees due to the perceived higher level of risk compared to the general obligation bond, which has the full backing of the governmental jurisdiction. 63-20 financed bonds also have a small asset management fee associated with them.

Benefits of 63-20 financing include the ability to realize construction cost savings through using a general contractor/construction manager (GC/CM) project delivery process compared to the design-bid-build model typically used for government facilities construction. Under this project delivery method, the general contractor guarantees a fixed price for the work and takes on the additional construction risk of subcontracting the project work. In addition, the contractor provides specialized project management, scheduling, budgeting, and other advice early on and throughout the project design process, which can result in a more efficient construction process and less costly project. This project delivery process is especially advantageous for unique or complex projects where governmental agencies may not have experience. The cost savings are not guaranteed, and they vary by project depending on the situation. Lastly, 63-20 bonds do not count towards a jurisdiction's debt limit, which is advantageous for jurisdictions with limited or no debt capacity.

Considerations:

63-20 bonds may make sense when private sector involvement in developing a governmental facility is likely to provide significant benefits compared to a traditional public approach. These benefits may be most apparent for facilities that:

- The obligation to pay rent is not a debt of the agency for the purposes of constitutional and statutory limitations on state debt. 63-20 bonds offer an option when the agency already carries the debt allowed by statutory regulation.
- 63-20 financing could streamline delivery of a project, as an experienced developer, chosen via a request for proposals (RFP) process, would likely steward the process.
- 63-20 financing shifts a significant amount of the project risk from the City to developers.
- The timing of payment of the 63-20 lease established for a project would align the projects' payees with the beneficiaries.

UNLIMITED TAX GENERAL OBLIGATION (UTGO) BONDS – (VOTED)

Unlimited tax general obligation (UTGO) bonds are both a financing and funding source as their issuance includes the levy of an additional tax to repay them. These bonds require 60% voter approval and may only be used for capital purposes. When residents of a city vote for a bond issue, they are being asked to approve: (a) the issuance of a fixed amount of general obligation bonds and (b) the levy of an additional tax to repay the bonds, unlimited as to rate or amount. Once voter approval is obtained, a municipal corporation is still restricted by constitutional and statutory debt limits with these bonds. The statutory debt limits on this type of debt is 2.5% of the assessed value of property inclusive of any LTGO (non-voted) debt.

The City currently has $32.4 million (2015$) in non-voter approved debt outstanding applicable to its UTGO debt. Debt Capacity as of May 2015 for UTGO Bond Debt is $90.1 million (2015$). This is not directly additive to LTGO debt capacity. Only $49 million (2015$) in UTGO bond capacity would be available if LTGO debt capacity was reached.

Considerations:

- To approve UTGO bonds, an election must be held and the measure must be approved by at least 60%. Thus, these bonds would be most effective for discrete projects, for instance the public safety facility.
- The City has bond capacity and can choose to use it for facilities. Given the magnitude of the facility needs, it may be both practical and necessary to use UTGO capacity for some or all of the early project needs, which would also allow the City to keep CIP funds available for other later projects.
- Since bonds are debt, the added costs of interest will increase project costs long term.

IDENTIFIED FUNDING OPTIONS

Building new facilities requires large sums of cash in short time windows. Financing is a way to satisfy the capital needs for a new building in the short term while amortizing the costs of the building over time. In addition, financing aligns the payees (tax payers) to the beneficiaries (those benefiting and using the new facilities). Different finance tools create different types of financial obligations over the long term, which impact the City's operating costs, its debt capacity, and the ability for it to react to unforeseen emergencies requiring City funds. This Plan presents four financing programs that represent possible funding pathways for the preferred alternative. Execution of each of these programs would allow the City to successfully replace these facilities on their desired schedule. Each of these financing options have different impacts to:

- The City's existing Capital Improvement Plan,
- Consumption of statutorily authorized debt capacity, and,
- Costs to residents from additional taxes.

Each financing tool imposes different financing costs (including interest rates, bond issuance fees, and management fees) and impact the City's annual budget (the effective annual cost to the general fund) in specific ways. These financing tools can be combined with funding tools (for instance, utilization of the City's existing CIP) to create Funding Programs. We have developed four Funding Programs that present workable options for the City of Tukwila in their execution of this Facilities Plan. Further, these plans are bounded by two additional options that are not workable for the City at this time, but are useful for illustrative purposes. These two approaches include:

1. **All Cash:** Fund through cash on a pay-as-you-go basis
2. **All Voted Bonds:** Finance and fund complete program via UTGO (voted) bonds

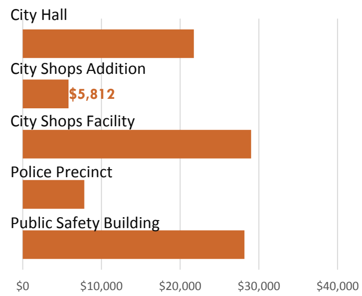
FIGURE 3: FINANCING APPROACH BOOKENDS

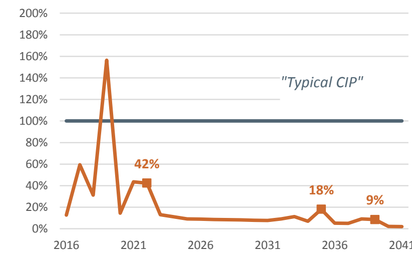
UTGO (Voted Bonds) | 63-20 | LTGO (Councilmanic) | CIP (Cash)

Funding Program		Challenge

All Cash

Fund through cash on a pay-as-you-go basis.

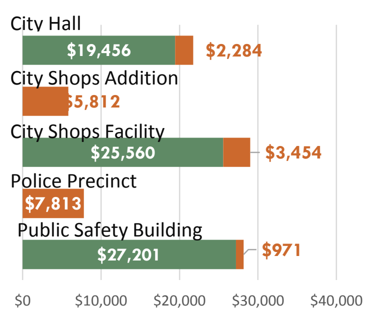


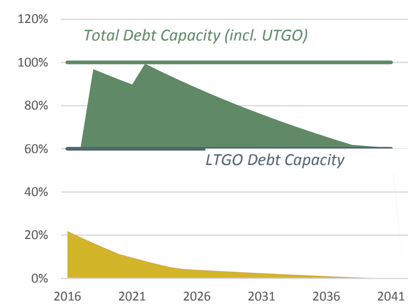


▶ **Approach is Unfeasible.** Funding the facility investments exclusively with cash would require more cash in short time periods than the City has or would be able to save in time. This approach would consume too much of the City's funding available for capital improvements allowing too little capacity for other necessary projects such as streets, bridges, parks, and sewer facilities.

All Voted Bonds

Finance and fund complete program via UTGO (voted) bonds





ANNUAL COST FOR A $250,000 HOME: **$202.21**

▶ **Approach is not preferred.** Funding the three largest facility investments exclusively with UTGO (voted) bonds would allow the City to fund the Plan without impacting the City's CIP or general fund. However, the investments are not discretionary and will require investment regardless of whether the investment is approved by voters.

Source: City of Tukwila, 2015; and BERK, 2015.

Although neither of these approaches will work for the City, they do create a useful bounds for identifying Funding Programs that are realistic for the City. These funding programs use a mix of funding (cash) and financing (LTGO [councilmanic] and UTGO [voted] bonds, and 63-20 financing) tools to fund this Facilities Plan. Four Funding Programs have been identified, and include:

1. **Voted Bonds:** Finance and fund the Public Safety Building and the City Shops Facility via UTGO (voted) bonds. Finance City Hall through LTGO (Councilmanic) bonds.
2. **Voted Bond & Design/Build Finance:** Finance and fund Public Safety Building via UTGO (Voted) bond, City Shops via 63-20 financing, and City Hall via LTGO (Councilmanic) bonds
3. **Voted and No-vote Bonds:** Finance and fund Public Safety Building via UTGO (Voted) bond, and both City Shops and City Hall via LTGO (Councilmanic) bonds

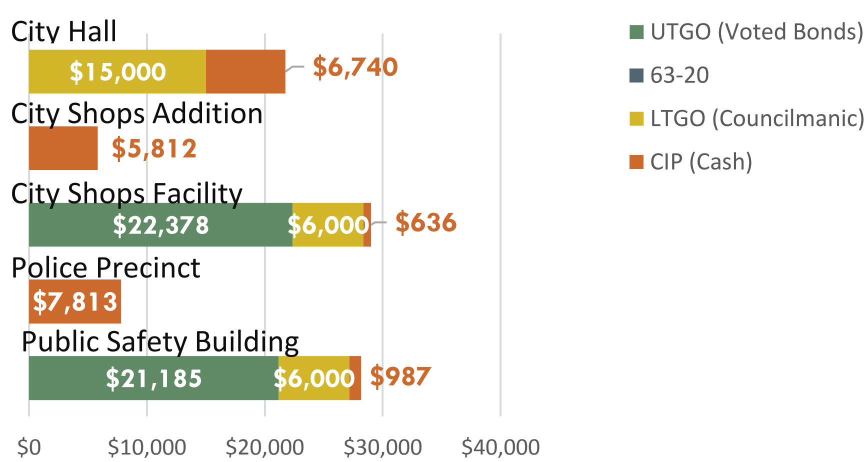
4. **No-vote Bond & Design/Build Finance:** Finance and fund City Shops via 63-20 and both Public Safety Building and City Hall via LTGO (Councilmanic) bonds

While these options do not represent the full universe of options the City has to fund and/or finance its preferred options, they do provide a thorough accounting of the most viable funding and financing programs available. These Funding Programs are described in greater detail below.

FUNDING PROGRAM 1: FINANCE AND FUND THE PUBLIC SAFETY BUILDING AND THE CITY SHOPS FACILITY VIA UTGO (VOTED) BONDS. FINANCE CITY HALL THROUGH LTGO (COUNCILMANIC) BONDS.

Funding Program 1 is primarily an "Ask the Voters" option in which the two largest projects in this Facilities Plan (Public Safety Building and City Shops) would be funded through UTGO (voted) bonds and smaller cash payments and City Hall would be funded through LTGO (Councilmanic) bonds, as shown in **Figure 4**, below.

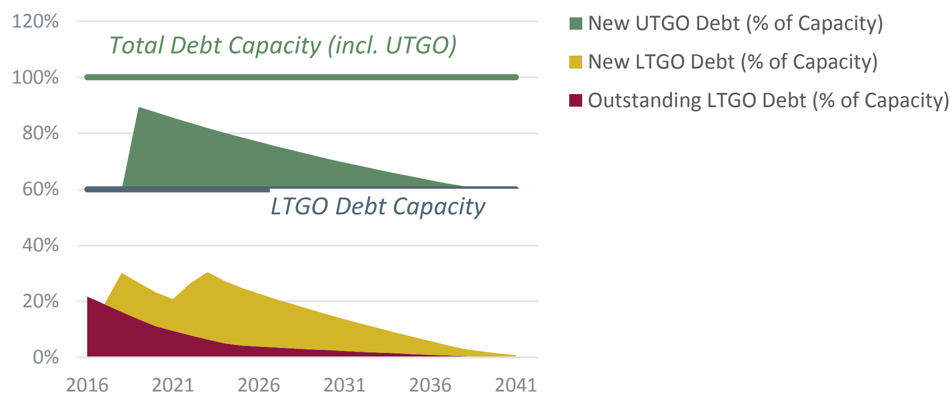
FIGURE 4: FUNDING PROGRAM 1 SUMMARY



Source: City of Tukwila, 2015; and BERK, 2015.

Given the reliance on bonds, the program has minimal impact to the current CIP. However, the impact to debt capacity is significant, as it absorbs much of the City's overall debt capacity in the short term, though leaving some capacity in both bonds. This is shown in **Figure 5** below.

FIGURE 5: FUNDING PROGRAM 1 IMPACT TO DEBT CAPACITY



Source: City of Tukwila, 2015; and BERK, 2015.

Within this funding program, the UTGO bonds would increase the Levy Rate by $0.54 (Tukwila's current levy rate is $2.98, meaning it would be raised to $3.52), resulting in an annual cost of $135.34 per year for a $250,000 home.

The reliance on UTGO may not be feasible, given the challenge of passing a UTGO bond for core government services.

- Validation may be hard to achieve during elections with low turnout.
- It will be critical to consider timing and additional bond requests on the ballot (such as KRFA or the School District).
- The facility needs are critical and non-discretionary. Voted bonds present a significant political risk because the City will have to remedy its deficient facilities whether the public supports the bond or not.

This Program requires passage of a significant public election, which with the combination of both the Public Safety Building and City Shops projects may be somewhat unlikely.

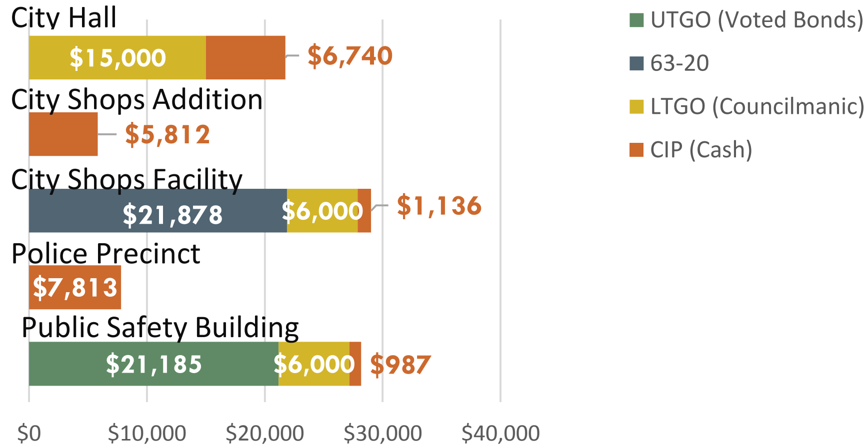
There are also cost impacts to utility ratepayers, including an approximately $0.80 on an average $50 monthly utility bill based on an anticipated utility tax increase of 6.1%.

STEERING COMMITTEE RECOMMENDED APPROACH

FUNDING PROGRAM 2: FINANCE AND FUND PUBLIC SAFETY BUILDING VIA UTGO (VOTED) BOND, CITY SHOPS FACILITY VIA 63-20, AND CITY HALL VIA LTGO (COUNCILMANIC) BONDS

Funding Program 2 involves funding the Public Safety Building via UTGO (voted) bond, the City Shops Facility via 63-20 financing, and City hall via LTGO (Councilmanic) Bonds, as summarized in **Figure 6**.

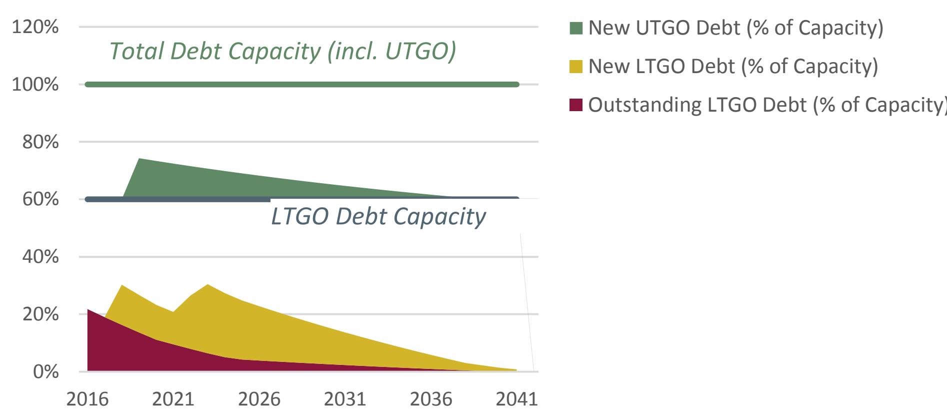
FIGURE 6: FUNDING PROGRAM 2 SUMMARY



Source: City of Tukwila, 2015; and BERK, 2015.

This Program requires two types of debt: UTGO (voted) for the Public Safety Building and LTGO (Councilmanic) debt for the City Hall. Given the public-focused nature of police and courts, the Steering Committee felt that the Public Safety Building would have the highest appeal to voters. In this funding program, the bonds do not consume enough of the City's debt capacity to over-burden the City with debt payments or impact its bond ratings. This is shown in **Figure 7**, below.

FIGURE 7: FUNDING PROGRAM 2 IMPACT TO DEBT CAPACITY



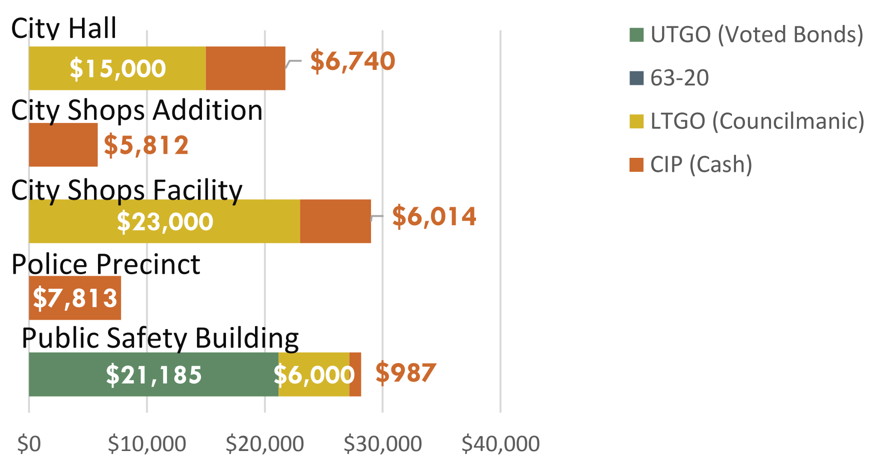
Source: City of Tukwila, 2015; and BERK, 2015.

The financing tools impose additional costs to the facilities program including debt service, or in the case of 63-20 financing, lease payments. There are also cost impacts to ratepayers, including an approximately $3.95 on an average $50 monthly utility bill based on an anticipated utility tax increase of 7.9% and a levy rate increase of $0.26 per $1,000 of assessed value resulting in an annual $65.82 increase in property taxes on a $250,000 home.

FUNDING PROGRAM 3: FINANCE AND FUND PUBLIC SAFETY BUILDING VIA UTGO (VOTED) BOND, AND BOTH CITY SHOPS AND CITY HALL VIA LTGO (COUNCILMANIC) BONDS

Funding Program 3 involves funding the Public Safety Building via UTGO (voted) bond and the City Shops Facility and City hall via LTGO (Councilmanic) Bonds, as summarized in **Figure 8**.

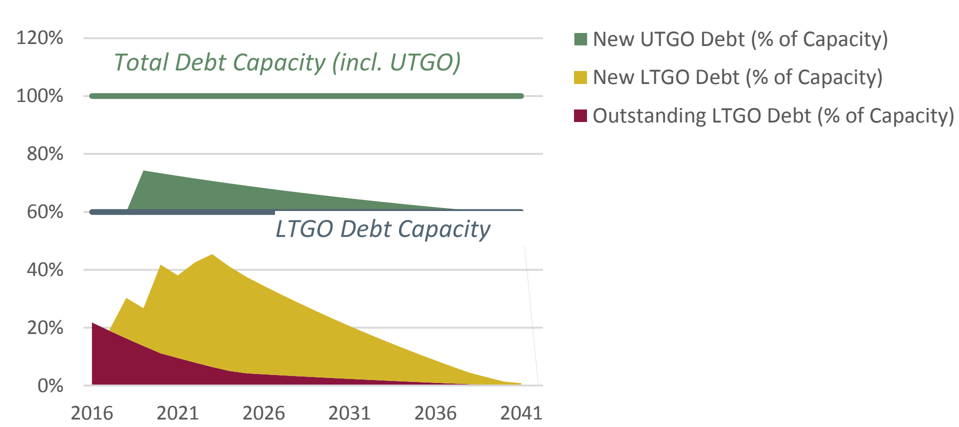
FIGURE 8: FUNDING PROGRAM 3 SUMMARY



Source: City of Tukwila, 2015; and BERK, 2015.

This Program requires two types of debt: UTGO (voted) for the Public Safety Building and LTGO (Councilmanic) debt for the City Shops Facility and City Hall. Given the public-focused nature of police and courts, the Steering Committee felt that the Public Safety Building would have the highest appeal to voters. In this funding program, bonds consume enough of the City's debt capacity that the potential to over-burden the City with debt payments or impact its bond ratings is a valid consideration. This is shown in **Figure 9**, below.

FIGURE 9: FUNDING PROGRAM 3 IMPACT TO DEBT CAPACITY



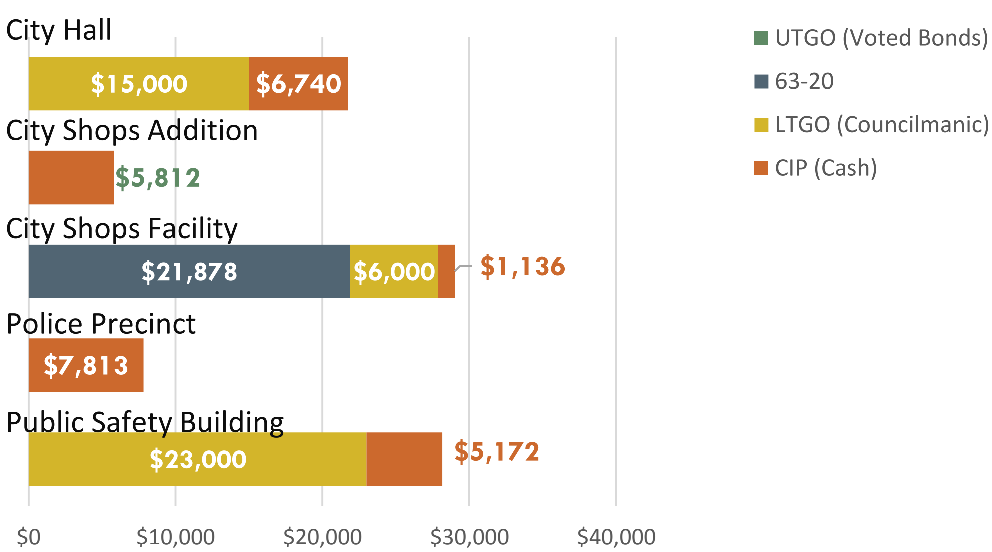
Source: City of Tukwila, 2015; and BERK, 2015.

The financing tools impose additional costs to the facilities program including debt service. As a result, the cost of the overall Funding Program is just over $124 million. There are also cost impacts to ratepayers, including an approximately $3.07 on an average $50 monthly utility bill based on an anticipated utility tax increase of 6.1% and a levy rate increase of $0.26 per $1,000 of assessed value resulting in an annual $65.82 increase in property taxes on a $250,000 home.

FUNDING PROGRAM 4: FINANCE AND FUND CITY SHOPS VIA 63-20 AND BOTH PUBLIC SAFETY BUILDING AND CITY HALL VIA LTGO (COUNCILMANIC) BONDS

Funding Program 4 involves funding the City Shops Facility via 63-20 financing, and the Public Safety Building and City hall via LTGO (Councilmanic) Bonds, as summarized in **Figure 10.**

FIGURE 10: FUNDING PROGRAM 4 SUMMARY

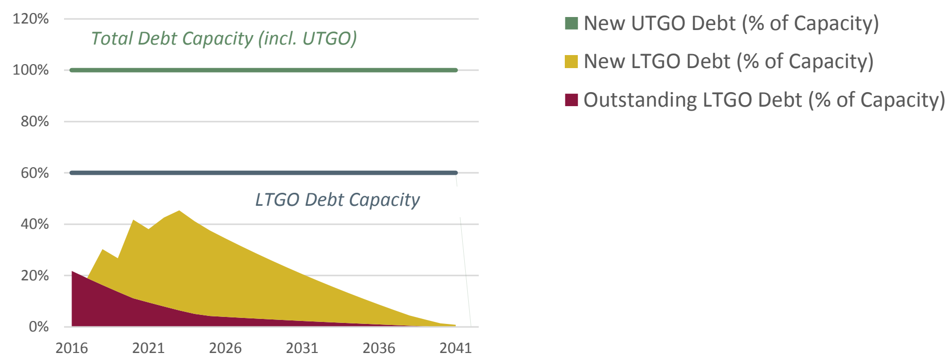


Source: City of Tukwila, 2015; and BERK, 2015.

This Program requires one type of debt: LTGO (councilmanic) for the Public Safety Building and City Hall. In this funding program, bonds consume enough of the City's debt capacity that the potential to over-burden the City with debt payments or impact its bond ratings is a valid consideration. This is shown in **Figure 11**, below.

FIGURE 11: FUNDING PROGRAM 4 IMPACT TO DEBT CAPACITY

Source: City of Tukwila, 2015; and BERK, 2015.



The financing tools impose additional costs to the facilities program including debt service, or in the case of 63-20 financing, lease payments. . As a result, the cost of the overall Funding Program is just over $127 million. There are minimal impacts to ratepayers of approximately $3.95 on an average $50 monthly utility bill based on an anticipated utility tax increase of 7.9%.

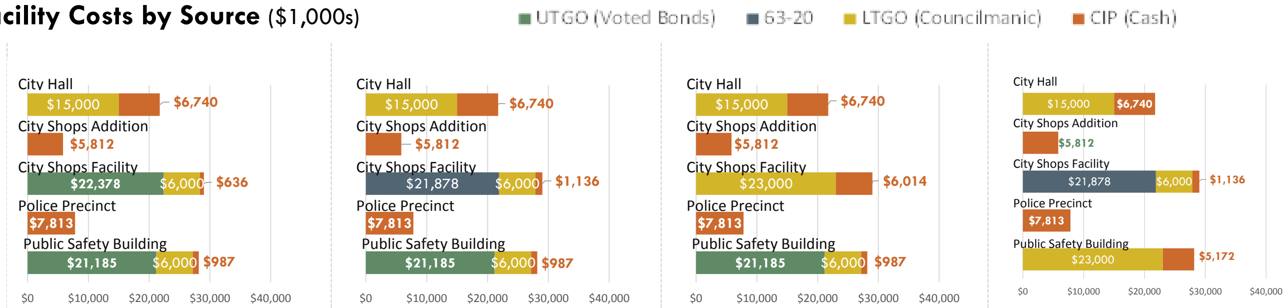
COMPARISON OF OPTIONS

A useful comparison of these four funding options is presented in **Figure 12**, below.

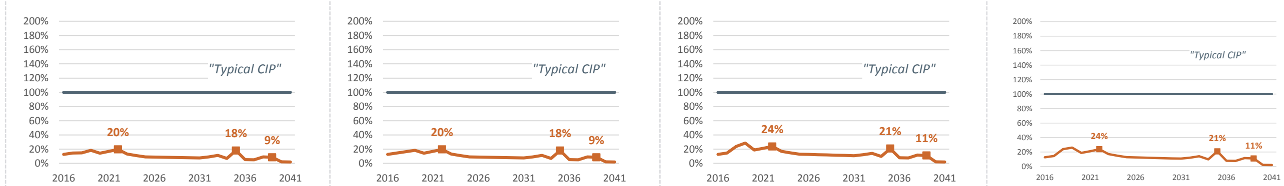
FIGURE 12: OVERVIEW OF FINANCING APPROACHES

	Funding Program 1	Funding Program 2	Funding Program 3	Funding Program 4
	UTGO (voted) Bonds	UTGO (voted) Bonds	UTGO (voted) Bonds	LTGO (councilmanic) Bonds
	UTGO (voted) Bonds	63-20 Financing	LTGO (councilmanic) Bonds	63-20 Financing
	LTGO (councilmanic) Bonds	LTGO (councilmanic) Bonds	LTGO (councilmanic) Bonds	LTGO (councilmanic) Bonds

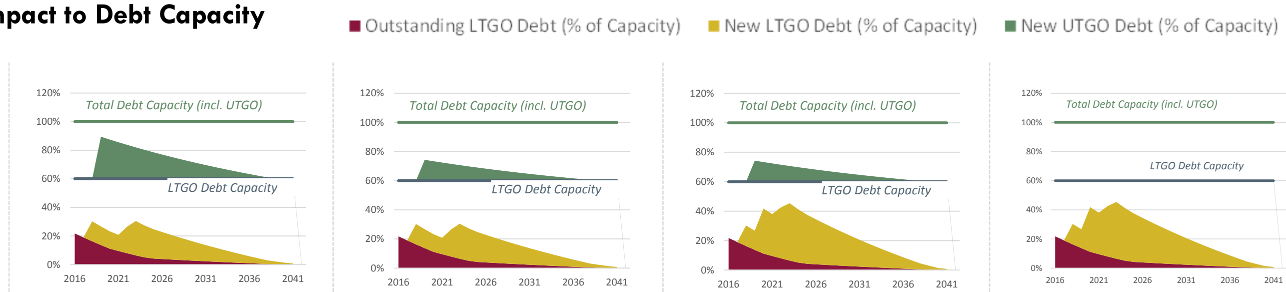
Facility Costs by Source ($1,000s)



Impact to CIP (cash and debt as % of typical CIP spend)



Impact to Debt Capacity



Costs

	Funding Program 1	Funding Program 2	Funding Program 3	Funding Program 4
CITY FUNDS ($1,000s)	$124,506	$129,272	$124,210	$127,206
LEVY RATE IMPACTS (ANNUAL COST FOR A $250,000 HOME)	$135.34	$65.82	$65.82	
IMPACT TO UTILITY COSTS (% INCREASE AND IMPACT ON $50 MONTHLY UTILITY BILL (YOE$)	1.6% $0.80	7.9% $3.95	6.1% $3.07	7.9% $3.95
AVERAGE ANNUAL L:EASE PAYMENT FOR 20 YEAR LEASE AS % OF ANNUAL GENERAL FUND (AND ANNUAL LEASE PAYMENT)		0.90% $1.77 M		0.90% $1.77 M

Source: City of Tukwila, 2015; and BERK, 2015.

ADDITIONAL FUNDING OPTIONS

ADDITIONAL REVENUE SOURCES

ENTERPRISE FUNDS

The needs assessment calls for the replacement of the City's existing shops and Public Works facilities, a portion of which supports enterprise programs (water, sewer, and surface water maintenance). These utility services are operated like a private business where fees are set at a level that allows the City to meet both its operating and capital needs through user charges. Enterprise programs may raise their rates (user charges) to increase funding for capital needs, including capital facility needs. This analysis assumes a portion of the Public Works Building could be funded from utility fees, reducing the impact on the non-utility CIP. The utility enterprise portion is approximately 51.38% of the Public Works Building, based on share of full time equivalent staff that will be housed in the Public Works Building. Subsequent analysis will consider a broader range of factors for apportioning Public Works facility investments to enterprise funds.

Considerations:

- Each 1% increase in utility tax rates would yield an additional $600,000 in revenues annually.
- If it pursues this funding option, the City will need to advance its analysis for determining how much of the Public Works building and shops is related to the City's utility operations to ensure it is defensible to the State Auditor's Office. Currently, it is expect that the public works building is expected to be funded via the utility enterprise. This 50% assumption is being refined, based on the proportion full time equivalent staff and fleet that will be supported by this facility, that are enterprise-related (versus general fund-related). 48.6% of staff and 20.6% of fleet are enterprise-related.
- It is likely that this option would impact the rates utility consumers pay. The potential impact on and individual payer would vary by service usage and additional analysis would be needed to estimate the overall impact to utility payers if this alternative is pursued. Since 2011, utility tax rates have increased annually between 3% and 15%, resulting in average monthly bill impacts ranging from $5.95 to $10.01 per month (cumulative across residential water, sewer, and surface water services).
- It is appropriate that utility rate payers would fund the utility-supporting portion of the Public Works building, as that portion of the facility will directly benefit them (by supporting their utilities services). This aligns the payee to the project beneficiary.

SURPLUS PROPERTY

While a review of current property and market value was not conducted as part of this study, the City of Tukwila may have property that would be suitable to surplus and sell to help fund facility investments.

NEW AND ADDITIONAL TAXES

New and additional taxes might not directly fund facilities projects, however, they are likely to increase CIP capacity such that there is additional capacity for additional priority projects. This will reduce the percentage of the CIP that is being consumed by the, making it easier to prioritize while still meeting other City needs.

TRANSPORTATION BENEFIT DISTRICT LEVIED TAXES

As per Chapter 36.73 RCW, cities can create a transportation benefit district (TBD) through their legislative authority. A TBD is an independent taxing district that can impose fees to fund transportation improvements. These taxes are not restricted to capital construction projects and can be used for maintenance and preservation on road and non-motorized projects. TBDs can include other counties, cities, port districts, or transit districts through inter-local agreements. TBDs do not have to include the entire jurisdiction of the establishing entity. The two taxation options TBDs are authorized to levy include:

- **Up to a $100 Motor Vehicle Excise Tax (MVET) levied via a TBD.** One tax that can be imposed by a TBD is an up to $100 MVET (36.73.075 RCW). A $20 MVET can be imposed without a vote of the people. The City of Tukwila could consider exploring the policy option of levying this $20 MVET on its entire jurisdiction via a TBD. However, a small population base means that this is unlikely to generate significant revenues. In 2014, this option would have generated $0.2 million in additional revenues.
- **Up to a 0.02% Sales and Use Tax (SUT) levied via a TBD.** Another tax that can be imposed by a TBD is an up to a 0.02% SUT (36.73.075 RCW). Due to the City of Tukwila's robust taxable retail sales base, an additional SUT levied via a TBD could be a useful tool to generate additional sales tax revenues. In 2014 alone, this option would have generated $3.9 million in additional SUT revenues.

Long term, a TBD could expand the City's CIP capacity, yielding additional revenues to support the facilities plan. These funds would increase the City's overall CIP capacity, therefore reducing the percentage of the CIP necessary to support this facilities plan.

Considerations:

- Revenues generated by a TBD can only be used for transportation purposes, however, as 64% of the costs identified in the CIP are for transportation projects, it is expected that these funds could replace existing general funds supported transportation projects.
- Development of a TBD requires two stages of councilmanic action: (1) development of the authorizing ordinance, and (2) an ordinance to levy the tax desired. This means that this strategy is unlikely to provide funding in the first two years of this facilities plan.
- Long term, a TBD funded by a 0.02% sales and use tax could generate significant revenues (estimated by the City of Tukwila as up to $3.6 million annually) to support this facilities plan.

LEVY LID LIFT

As per RCW 84.55.050, the only way for a Washington city without banked capacity to increase its property taxes by more than one percent is to do a levy lid lift. This occurs when taxing jurisdictions with a tax rate less than their statutory maximum rate ask voters to increase their tax rate to an amount equal to or less than the statutory maximum rate, effectively lifting the lid on the levy rate.

Considerations:

- Levy lid lifts are authorized through public vote, which requires a simple majority to pass. It is unknown whether there is political will to pass such a vote for facilities projects in Tukwila.
- The City of Tukwila estimates that a levy lid lift, raising Tukwila's current levy rate from $2.84 per $1,000 of assessed value to the cap of $3.32 per $1,000 of assessed value, would yield $2.4 million in additional revenues annually.

BUSINESS AND OCCUPATION TAX

A business and occupation (B&O) tax is levied on businesses operating in or with a physical presence in the city, as described in Chapter 82.04 RCW. The tax can be levied three ways:

- Percentage of gross business income (GBI)
- Per employee tax
- Per square foot tax

Considerations:

- Tukwila does not currently levy a B&O Tax. The City could likely generate significant funds by levying such a tax, however, this may be politically challenging, especially as local businesses are often considered the payee.
- Local B&O taxes require significant administration and enforcement.
- Long term, a B&0 Tax could generate significant revenues to support this facilities plan; the City of Tukwila estimates that a 0.2% tax on gross business income could yield $4.0 million in revenues annually.
- A B&O tax rate of 0.2% on GBI can be levied councilmanically, however this ordinance is subject to a referendum procedure. It is unknown whether there is political will to pass such a vote for facilities projects in Tukwila if such a referendum were to occur.

ADDITIONAL GENERAL FUND REVENUES

The City could generate additional general fund revenues to create additional flex to fund capital facilities improvements. This could be accomplished by reexamining existing taxes and fees, including:

- Admissions Tax
- Parking Tax
- Revenue Generating Regulatory License Fee
- Fire, Traffic, and Park Impact Fees

Considerations:

- These taxes and fees can be reexamined, and potentially increased, through councilmanic action.

- The City is already projecting an operating revenue shortfall, so it is expected that these existing taxes and fees may be evaluated to fill that shortfall. If that proves to be the case, it is unlikely that there will be enough surplus revenues from these sources to also support additional capital funds for facilities.

OFFSETTING COST SAVINGS

It is possible that these new facilities would create both organizational and physical (energy, water, and maintenance) efficiencies. However, these facilities will also allow for increased use and be significantly larger than previous facilities, which may negate any efficiency gains. For that reason, and for the sake of providing conservative estimates, offsetting revenues to support these projects were not identified.

Considerations:

- Offsetting revenues due to organizational and physical efficiencies allowed by these new facilities are possible, but not necessarily probable, as the new buildings will be larger and their systems will be more sophisticated. For that reason, potential offsets were considered net neutral to Tukwila's budget overall.

ADDITIONAL PRIORITIZATION OF OPERATING SERVICES AND CAPITAL PROJECTS

These facilities needs are a portion of the City's overall capital needs. As such, the City can reprioritize its CIP to provide more capacity for executing these facilities projects. The City can also consider reducing operational costs. Reducing operational costs, which could take the form of 10% reduction in services, as determined by Administration and Council, would yield significant dollars (approximately $4.9 million per year), that could be allocated to capital projects, and specifically facilities.

Considerations:

- Reducing operational costs requires significant service cuts, which are likely to be felt by residents.
- The City is already anticipating future operating shortfalls—it is likely that these shortfalls will consume any savings from a reduction in operating costs.
- The City has already spent significant time prioritizing its capital projects. It is unknown whether there are any projects that the City would be willing to waylay in favor of facilities.