

CITY REVENUES

Each of the twenty-nine funds detailed within the 2017-2018 budget have a specific purpose and responsibility. The funds act much like the separate checking accounts maintained by family members. Each fund accounts for all revenues and all expenditures/expenses transactions that occur throughout the year. This allows the City to accurately record revenues and authorize and monitor expenditures as to source and purpose for greater accountability and improved efficiency.

Most traditional local government functions, including police, fire, parks, finance, administration, planning, community development, engineering, legal, building inspection, and legislative services are budgeted within the general fund. Following is a listing of many of the funding sources for the City. This list is not meant to be all-inclusive, but rather to assist in understanding how and where much of the money comes from in the support of general services of the City.

TAX REVENUES

General Fund tax revenues in 2017 (\$4,849,497) are projected to increase by \$249,897 or 5.4% more than the 2016 budgeted amount (\$4,599,600). Council approved a 1% increase in property taxes, and property taxes due to new construction increased by \$55,085. In addition, sales tax increased about 19% in 2016 due in large part to sales tax generated by construction. Sales tax for 2017 has been projected conservatively at \$1,200,000 due to its volatility.

Property Tax

Property taxes are the largest source of revenue in the general fund. All real and personal property (except where exempt by law) is assessed by the Snohomish County Assessor at 100 percent of the property's fair market values. Assessed values are adjusted each year based on market value.

Although property taxes represent a major source of funding for City services, the portion of each property owner's total tax bill allocated to the City is relatively small. In 2016, the typical total property tax rate for Stanwood was \$10.91 per \$1,000 of assessed valuation. Of that total, about 35 percent, or \$3.86 per \$1,000 assessed value went to the City. This included the general levy and the EMS levy.

Initiative 747, which passed in November of 2001, limits the annual increase in the regular property tax levy to the lesser of one percent or the implicit price deflator. Previously, the cap was six percent. The City can only exceed the limitation with the approval of the voters. I-747 does not affect special levies that are approved by voters. The initiative does not affect property values and has no impact on the annual valuation of property that is done by the County Assessor. It does not cap the value of your property or your total property tax bill.

In 2007, the Washington State Supreme Court ruled Initiative 747 unconstitutional. The Governor convened a special session of the legislature to address the issue and a bill was passed to reinstate the one percent cap on annual property tax increases by taxing districts. The legislature also approved a measure that allows home owners earning less than the median state income to defer up to half of their property taxes. Although they will have to pay taxes with interest upon the sale of the house, these policies have resulted in lower property tax revenue for local taxing districts.

The City is also provided an allowance for new construction, which entitles the City to the property tax revenue generated by newly constructed business and homes. The new construction levy does not increase the overall tax rate paid by property owners. The City's total rate cannot be more than 3.10 per \$1,000 of assessed valuation.

The annual tax impact on a property owner is usually different than the percent increase of the levy, since it depends on several factors such as changes in the assessed valuation of the property, growth in the City's overall assessed valuation, and the levy increases by other taxing districts. The property tax rate is determined by dividing the levy amount by the assessed valuation per \$1,000.

Stanwood voters approved a six-year EMS levy renewal during 2010 which went into effect in 2011. The funds must be used for EMS purposes. Based on the limit of \$0.50 per \$1,000 assessed valuation, the City expects to receive about \$385,000 in 2017 and \$389,456 in 2018 from the EMS levy to help fund EMS services.

Retail Sales and Use Tax

Sales tax is levied on the sale of consumer goods (except most food products and some services) and construction. The amount of revenue generated by sales tax fluctuates from year to year due to changes in the economy, buying habits of consumers, and the level of construction taking place in the City.

The general sales tax rate within the City of Stanwood is 9.1 percent. Of the 9.1 percent, one percent (less 0.15 percent that goes to Snohomish County and 0.01 percent that goes to the State) is returned to the City of Stanwood, and the remainder is distributed to the State and other public agencies. The City's effective rate is 0.84 percent.

In February 2013, the voters approved a 0.2% sales tax for the Stanwood Transportation Benefit District (TBD). In 2015, the City assumed the TBD and effective January 01, 2016 all Transportation Sales Tax is accounted for separately in a new fund 108. This tax generated \$347,631 in 2016, and is used to support street construction and repair projects.

Criminal Justice Sales Tax

Under the authority granted by the State and approved by voters, Snohomish County levies an additional 0.1 percent sales tax to support criminal justice programs. The State collects this optional tax and retains 1.5 percent for administration. Of the amount remaining, 10 percent is distributed to the county and 90 percent is distributed to the cities based on population. This revenue must be used exclusively for criminal justice purposes and cannot replace existing funds designated for these purposes.

Utility Taxes

Utility taxes are levied on the gross operating revenues that public and private utilities earn from operations within the boundaries of the City. This applies to electric, natural gas, water, sewer, surface water, solid waste, and telephone. Legislation passed in 1982 limits the tax rates on electric, gas, steam, and telephone utilities to six percent. There are no restrictions on the tax rates for water, sewer, surface water, and solid waste utilities. Currently the utility tax rate applies to both residential and commercial customers of the utilities which the City imposes a utility tax on. Six percent is charged on electric, telephone utilities, gas, and sewer utilities. 10.7 percent is charged on water utilities.

Leasehold Excise Tax

Leasehold excise taxes are collected on property owned by state or local governments and leased to private parties. Leasehold taxes are paid in lieu of property taxes. The state rate is 12.4 percent, of which 4 percent is returned to the City.

Real Estate Excise Tax (REET)

The Real Estate Excise Tax is levied on all sales of real estate, measured by the full selling price, including the amount of any liens, mortgages, and other debts given to secure the purchase. The State levies this tax at a rate of 1.28 percent. Cities are also authorized to impose a local tax of 0.50 percent. The first 0.25 percent of local tax must be used primarily for local capital improvements identified under the capital facilities plan element of the City's Comprehensive Plan. The second 0.25 percent, which is also optional, must also be used solely on capital projects.

Capital projects are defined as those public works projects of the local government for the planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of streets, roads, highways, sidewalks, street and road lighting systems, traffic signals, bridges, domestic water systems, storm and sanitary sewer systems, and parks. The acquisition of land for parks is not a permitted use of the second quarter percent funds.

LICENSES AND PERMITS

Building Related Permits

This category consists primarily of revenue collected by the Community Development Department. Included in this category is building permits, plumbing permits, grading permits and mechanical permits. Fees imposed for permits are subject to a base charge determined by the type of permit, plus additional fees determined by either the dollar value or size (square foot or number of units) of the project.

Business Licenses and Permits

This category includes the issuance of business licenses, and permits for fire alarms, fire sprinkler systems, animal licenses, and other miscellaneous items. The fee structure for business permits is typically an annual fee or one-time charge depending on the particular type of license or permit. The City of Stanwood also requires businesses with no physical presence in Stanwood that are doing business in the City (e.g., contractors) to obtain a business license.

Franchise Fees

Franchise fees are charges levied on private utilities for the right to use city streets, alleys, and other public properties. Cable TV franchise fees are governed by federal rather than state law and may be levied at a rate of five percent of gross revenues, regardless of the cost of managing the franchise process. The Federal Communications Commission ruled in 2002 that cable companies do not have to pay franchise fees on cable modem services.