



Staff Report

September 19, 2022 Council Regular Meeting

Utility Tax Options Presentation

Presenter: Cathy Huber Nickerson, Finance Director

Time Estimate: 15 minutes

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BACKGROUND: This presentation provides information on utility taxes to inform Council of optional revenue sources as part of the City’s 2023-2024 biennial budget process.

SUMMARY: Utility taxes are considered part of the “Three-Legged Stool” for revenue to fund general operations of a city in Washington State. Utility taxes are imposed on the utility business and not on individual utility customers. Cities are permitted to levy the utility tax upon the income of public and private utilities providing services within the boundaries of that city. In addition, cities may also levy taxes on revenues generated by the city’s own utility both inside and outside the city limits.

Below are the maximum tax rates allowed:

Type of Utility	Maximum Utility Tax Rate
Electricity; Natural gas; Steam	6% unless voters approve higher rate (RCW 35.21.870)
Telephone (including cell phone/pager)	6% unless voters approve higher rate (RCW 35.21.870), but when taxing cell phone services cities may not tax Internet services (see below)
Broadcast satellite TV	May not be taxed (see 47 U.S.C. §152 under “Notes” tab)
Cable TV	Tax rate may not be “unduly discriminatory” (see 47 U.S.C. §542(g)(2) (A)); we suggest it should not exceed your other utility tax rates
Internet	May not be taxed (Internet Tax Freedom Act moratorium made permanent in 2016 – see 47 U.S.C. §151 under “Notes” tab)
Sewer; Solid waste; Stormwater; Water	No limit prescribed by state or federal law

The presentation will provide additional information and will provide options for Council to consider during the 2023-2024 biennial budget process.

EQUITY CONSIDERATIONS:

What are the desired results and outcomes for this agenda item? Staff hopes this presentation will begin a larger conversation around the need to diversify the City's revenues similar to the City's neighboring jurisdictions.

What's the data? What does the data tell us? The data shows the City is not utilizing all the revenue options available.

How have communities been engaged? Are there opportunities to expand engagement? Staff intends to use the month of October to do city-wide public engagement process.

Who will benefit from, or be burdened by this agenda item? All citizens and businesses within the City stand to benefit from the enhance level of service which additional revenues could fund.

What are the strategies to mitigate any unintended consequences? Utilities may pass the utility tax onto their customers but there some options available to the City to mitigate the impact on low-income households.

Does this agenda item have a differential impact on underserved populations, people living with disabilities, and/or communities of color? Please provide available data to illustrate this impact. There may be impacts on some lower income or disabled households, but the City may choose to offer assistance.

Will this agenda item improve ADA accessibilities for people with disabilities? N/A

What potential hurdles exists in implementing this proposal (include both operational and political)? This presentation is for Council information only.

How will you ensure accountabilities, communicate, and evaluate results? N/A

How does this item support a comprehensive plan goal, policy, or other adopted resolution? N/A

BUDGET IMPACT: This presentation is for Council information only.

RECOMMENDATION: This presentation is for Council information only.