JULY 2022

2023 Budget Suggestions

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2023 BUDGET SUGGESTIONS

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Introduction

MRSC's *2023 Budget Suggestions* publication provides cities and counties with timely and relevant information to assist in budget development. The data and forecasts in this publication are obtained from various state and federal agencies.

Budget Suggestions has been published annually since 1943 – first by our predecessor organization, the Bureau of Government Research, and since 1970 under the MRSC name as one of our signature publications.

The budgetary procedures and deadlines shown in this publication are the absolute minimums. Budgeting frequently requires more time than anticipated. We encourage local governments to start their budget process early to allow sufficient time for budget retreats, strategic planning sessions, other internal meetings, and public hearings.

Budget Suggestions focuses primarily on state shared revenue forecasts, economic indicators, state legislative impacts, and proposed initiatives that may impact your budget forecast and development for the forthcoming year and beyond.

The MRSC website is another great resource for budget-related information. Throughout *Budget Suggestions*, there are links to our budget webpages for further information, as well as specific budgeting tools that are only available on our website. One example is the State Share Revenue Estimator which allows users to click on their entity's name and automatically populate their state shared revenue projections for the upcoming year.

As part of the pre-budget process, we recommend that agencies review and update their financial policies to ensure they are still relevant and meet their needs and objectives. MRSC's Financial Policies Tool Kit is a great resource with areas such as fund balance, reserves, debt management, and cost allocation, as well as sample policies.

MRSC also publishes the City Revenue Guide and County Revenue Guide. These publications provide in-depth discussions of property taxes, sales taxes, excise taxes, and much more and can help jurisdictions better understand existing and potential revenue sources.

The MRSC website contains many additional budgeting resources including checklists, templates, and sample budget documents. All of MRSC's budgeting resources can be found at mrsc.org/budgeting.

Budget Suggestions is a team effort. Eric Lowell, Finance Consultant, is the primary author of this publication. Steve Hawley, Research and Communications Analyst, is the editor of the publication. Angela Mack, Graphic Designer, makes the publication look awesome. If you have any comments about this year's *Budget Suggestions* publication or our online budget resources, we would love to hear them. Please send your comments to Eric Lowell at elowell@mrsc.org.

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2023 Budget Calendar – Cities and Towns

The annual budget preparation procedures and deadlines for cities are found in chapter 35A.33 RCW (code cities) and chapter 35.33 RCW (all other cities and towns except Seattle) and outlined below. For cities that budget on a biennial basis, the current biennium is 2023-2024, which means they will be adopting a new biennial budget this year. (For more information, see our page on Biennial Budgeting.)

Most of the pre-budget items listed below are recommendations only and are not required by statute. The rest of the items are based on statutory deadlines; cities and towns can take these steps earlier than listed or adopt different deadlines for some of these steps by ordinance or charter. We recommend that each city and town develop a timeline that best meets its needs, ensures compliance with the statutes, and provides sufficient time to prepare this vital financial plan.

For examples of budget preparation calendars adopted by cities and towns, see our webpage 2023 City and Town Budget Calendar. For a detailed explanation of the budget requirements, as well as some helpful practice tips, see our webpage City and Town Budget Procedures.

March—August	**Pre-Budget Items** Council retreat. Update and/or adopt financial policies. Public hearings for capital facility plan updates. Public forums or community outreach (ex: community priorities). Mayor/Manager communicates budget objectives to staff.
September	**Sept 12** Budget request to all department heads. **Sept 12–25** Department heads prepare estimates of revenues and expenditures. Clerk prepares estimates for debt service and all other estimates. **Sept 25** Implicit price deflator calculated (only applies to cities of 10,000+ population). **Sept 26** Budget estimates from department heads filed with clerk.
October	**Oct 3** Clerk provides estimates filed by department heads to Mayor/Manager showing complete financial program. **Oct 3** Mayor/Manager provides Council with estimates of revenues from all sources including estimates prepared by clerk for consideration of setting property tax levy. **Mid-October to Mid-November (suggested)** Required public hearing on revenue sources including possible increases in property tax.
November	**Nov 2** Mayor/Manager prepares preliminary budget and budget message. Files with clerk and council. **Nov 1–18** Publication notice of preliminary budget and final hearing. **Nov 1–25** Public hearing(s) on preliminary budget. Public hearing on revenue sources for levy setting. **Nov 20** Copies of budget available to public **Nov 30** Property tax levies set by ordinance and filed with the county
December	**Dec 5** Final budget hearing. **Dec 31** Budget adoption.

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2023 Budget Calendar – Counties

The budget preparation procedures and deadlines for counties are found in chapter 36.40 RCW and outlined below. The initial procedures and requirements are the same for both annual and biennial budgets, with biennial jurisdictions required to conduct a mid-biennium review and adjustment the following year. (For more information, see our page on Biennial Budgeting.)

Most of the pre-budget items listed below are recommendations only and are not required by statute. The rest of the items are statutory deadlines; the board of commissioners may alter the dates for some of these budget processes to conform to the optional alternative preliminary budget hearing date in December (RCW 36.40.071). Many counties have adopted alternative dates, and we recommend each county develop a timeline that best meets its needs, ensures compliance with the statutes, and provides sufficient time to prepare this vital financial plan.

For examples of budget preparation calendars adopted by counties, see our webpage 2023 County Budget Calendar. For a detailed explanation of the budget requirements, as well as some helpful practice tips, see our webpage County Budget Procedures.

March—June	**Pre-Budget Items** Strategic planning sessions to develop goals and priorities. Update and/or adopt financial policies. Public hearings for capital facility plan updates for GMA planning counties. Capital improvement plan updates for partially planning GMA counties. Communicate budget objectives to county departments and elected offices.
July	**July 11*** County auditor or chief financial officer (CFO) notifies all officials of the request for budget.
August	**Before Aug 8*** Auditor or CFO prepares estimates for debt service and all other estimates not called for in the notification to officials. **Aug 8*** Budget estimates from all officials filed with auditor or CFO.
September	**Sept 6*** Preliminary county budget prepared by auditor or CFO is submitted to the commissioners. **Sept 19*** Notice of public hearing on budget and tax levies. Copies of budget available to the public. **Sept 25** Implicit price deflator calculated (only applies to counties of 10,000+ population).
October	**Oct 3*** Final budget hearing by board of commissioners.
December	**Dec 5** Alternate final budget hearing on preliminary budget; deadline to certify to assessor next year's property taxes levied on behalf of other taxing districts (such as fire districts). **Dec 15** Deadline to certify to assessor next year's property tax levies for county purposes. **Dec 31** Budget adoption.

** Dates may be altered if county is using alternate budget calendar*

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Budget Hearings

"How many public hearings are required for the budget process?" is one of those frequently asked questions at budget time. The following guidance reflects the minimum requirements.

CITIES AND TOWNS

By MRSC's analysis, each city or town must hold at least three public hearings during the budget preparation process. The minimum statutory requirements are addressed below, but please note that some cities may have adopted additional public hearing requirements by policy.

Public Hearing #1: Property Taxes/Revenue Sources. See RCW 84.55.120. The legislative body must hold a public hearing on revenue sources for the coming year's budget, including consideration of possible increases in property tax revenues, prior to the property tax certification deadline, which is November 30. After the hearing, a city/town may choose to pass an ordinance at the same meeting establishing the property tax levy in terms of total dollars and percent increase from the previous year. This ordinance may cover a period up to two years, but in practice most jurisdictions – even biennial budget jurisdictions – hold a revenue hearing every year.

Because of the importance of revenue forecasting as a precursor to presenting a structurally balanced budget, we suggest that the property tax hearing precede the preliminary budget hearing (see below). This would place the property tax hearing sometime between mid-October and mid-November.

Notices must be placed in the official newspaper of the city/town prior to the public hearing. While the statute does not specifically address the length of time prior to the hearing that notice must be given, it is our recommendation that notice be provided no later than one week prior to the public hearing to ensure that the statutory intent and underlying purpose of notice is reasonably fulfilled.

Public Hearing #2: Preliminary Budget Hearing. See RCW 35.33.057/RCW 35A.33.055 (annual budgets) and RCW 35.34.090/RCW 35A.34.090 (biennial budgets).

The legislative body, or a committee thereof, must schedule preliminary "hearings on the budget or parts thereof" *prior* to the final budget hearing, which must be on or before the first Monday in December, and may require the presence of department heads to give information regarding estimates and programs. Public notice is required, but beyond the requirement to publish in the official newspaper of the city/town there are no additional publication requirements stated in statute. However, as with the property tax hearing, we recommend a minimum of one week's publication notice.

Since the statutory language references "hearings" as plural, it has long been MRSC's opinion that more than one preliminary budget hearing is required. However, since the statute also states that the hearings may be "on the budget or parts thereof," we also conclude that cities and towns may count the property tax/revenue hearing outlined above as one of the required preliminary hearings. This means cities and towns must hold at least one preliminary budget hearing in addition to the property tax/revenue hearing.

Public Hearing #3: Final Budget Hearing. See RCW 35.33.071/RCW 35A.33.070 (annual budgets) and RCW 35.34.110/RCW 35A.34.110 (biennial budgets). The final budget hearing must begin on or before the first

Monday in December (December 5 this year) and may continue from day-to-day beyond the first Monday but it must conclude no later than December 7 (the 25th day prior to the next fiscal year).

Notice of the final budget hearing must be published once a week for two consecutive weeks in the official newspaper. See RCW 35.33.061/RCW 35A.33.060 (annual budgets) and RCW 35.34.100/RCW 35A.34.100 (biennial budgets). The timing of this notice can be challenging for those cities and towns that have an official newspaper with less than a daily release schedule, so careful planning is required.

COUNTIES

By MRSC's analysis, each county must hold at least two public hearings during the budget process. The minimum statutory requirements are addressed below, but please note that some counties may have adopted additional public hearing requirements by policy.

Public Hearing #1: Property Taxes/Revenue Sources. See RCW 84.55.120. The legislative body must hold a public hearing on revenue sources for the coming year's budget, including consideration of possible increases in property tax revenues, prior to the property tax certification deadline, which is now December 15, and prior to the final budget hearing.

Notice is required in the county's official newspaper. While the statute does not specifically address the length of time prior to the hearing that notice must be given, it is our recommendation that notice be provided no later than one week prior to the public hearing to ensure that the statutory intent and underlying purpose of the notice is reasonably fulfilled.

After the hearing, a county may choose to pass an ordinance at the same meeting establishing the property tax levy in terms of total dollars and percent increase from the previous year. This ordinance may cover a period up to two years, but in practice most jurisdictions – even biennial budget jurisdictions – hold a revenue hearing every year.

Public Hearing #2: Final Budget Hearing. See RCW 36.40.070/RCW 36.40.071. The legislative body must meet on the first Monday in October, or alternatively the first Monday in December if using the alternate budget dates, for the budget hearing. Officials in charge of county offices, departments, services, and institutions must appear at the hearing and may, at the appropriate time, be questioned concerning their budget estimates by the commissioners or any taxpayer.

The hearing may be continued from day-to-day but may not exceed a total of five days. Upon conclusion of the hearing, the legislative body must fix and determine each budget item separately and must adopt the budget by resolution.

Notice of the final budget hearing must be published once a week for two consecutive weeks, immediately following adoption of the preliminary budget, in the county's official newspaper (RCW 36.40.060). The timing of this notice can be challenging for those counties that have an official newspaper with less than a daily release schedule, so careful planning is required.

BUDGET HEARINGS FOR BIENNIAL BUDGET MID-BIENNIUM ADJUSTMENTS

Cites/Towns

By MRSC's analysis, each city or town must hold at least two public hearings for the mid-biennium review and adjustment. Some cities may have adopted additional public hearing requirements by policy. The biennial budget statutes state that cities "shall provide for public hearings on the proposed budget modification" and "shall provide for publication of notice of hearings consistent with publication of notices for adoption of other city or town ordinances." See RCW 35.34.130/RCW 35A.34.130.

Because "hearings" is plural, it is our interpretation that at least two public hearings are required. However, as with the initial budget development, the property tax/revenue hearing (RCW 84.55.120) can count as one of the hearings. After the revenue hearing, cities must hold at least one additional public hearing on the mid-biennium review and adjustment.

Counties

RCW 36.40.250 provides counties with the authority to adopt a biennial budget and states that there must be a "mid-biennium review and modification for the second year of the biennium." However, the statute goes on to state that "[t]he state auditor shall establish requirements for preparing and adopting the mid-biennium review and modification for the second year of the biennium."

The State Auditor's Office provides limited guidance through its BARS manuals for the budget process and there are no additional requirements or guidance for the mid-biennium review. MRSC recommends that those counties with a biennial budget follow the same requirements as outlined above for cities.

PUBLIC HEARINGS FOR BUDGET AMENDMENTS

After the budget is adopted, cities, towns, and counties may amend the budget at any time. It is especially important to monitor budget appropriation levels as you reach the end of your budget cycle. Cities, towns, and counties must have sufficient budget appropriations available for all expenditures including open period expenditures. Budget amendments, if any, must be adopted on or before December 31. Most budget amendments do not require public hearings under state law, although some jurisdictions may have adopted public hearing requirements by policy.

Cities, towns, and counties are not required to hold public hearings on budget amendments related to "nondebatable" emergencies – see RCW 35.33.081/RCW 35A.33.080 (city/town annual budgets), RCW 35.34.140/RCW 35A.34.140 (city/town biennial budgets), and RCW 36.40.180 (counties). Public hearings are also not required for expenditures of unanticipated revenues, transfers within a single fund, or budget reductions. These types of amendments must be made by ordinance but do not require a public hearing.

However, public hearings are required for increasing expenditures for other "public emergencies" that are not considered "nondebatable" – see RCW 35.33.091/RCW 35A.33.090 (city/town annual budgets), RCW 35.34.150/RCW 35A.34.150 (city/town biennial budgets), and RCW 36.40.140 (counties). For cities and towns, the public notice requirements are not specifically outlined in statute. MRSC recommends following the same notice requirements of the preliminary budget hearing. Counties must publish notice of the hearing, as well as a resolution stating the facts of the emergency and the estimated amount of money required to meet it, once in the official county newspaper at least one week before the hearing.

Population Estimates

Population estimates are of particular importance to cities and counties, as they not only indicate whether the population is growing and how quickly, but they also form the basis for the distribution of many state shared revenues (see the chapter on State Shared Revenues).

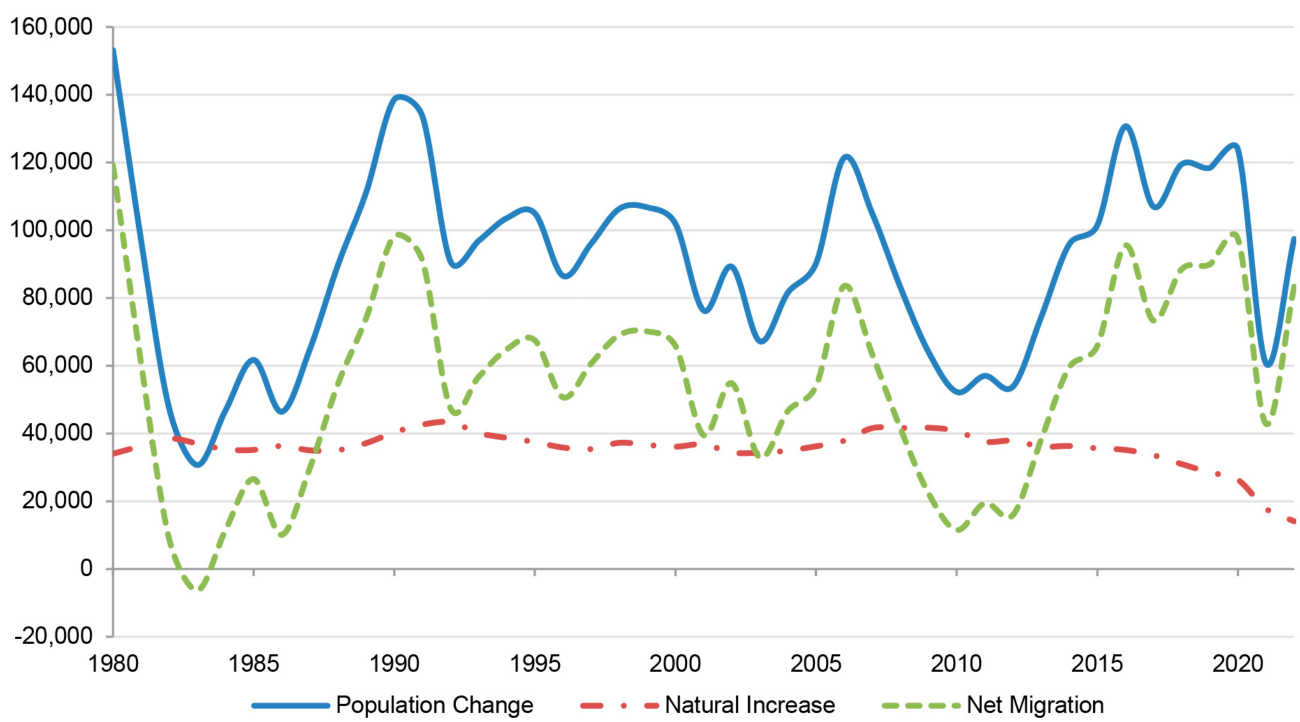
The Office of Financial Management (OFM) is responsible for determining populations of all cities, towns, and counties every year as of April 1. Those estimates are certified to the secretary of state on or before July 1 and distributed to the state agencies responsible for making allocations or payments to local governments. The updated distribution rates then take effect on January 1 of the following year.

According to OFM's April 1, 2022 population estimates, the state's total population now exceeds 7.86 million, an increase of just over 97,000 (1.4%) since last year. Population growth remains concentrated in the five largest metropolitan counties – Clark, King, Pierce, Snohomish, and Spokane – which represent 67% of the population growth.

Overall, the state's incorporated population increased by about 79,000 (1.6%), while the unincorporated population increased by about 19,000 (0.7%). On a percentage basis, San Juan County was the fastest growing county between 2021 and 2022 with 1.7% growth, followed by Spokane County at 1.6% and Clark County at 1.5%.

To see your jurisdiction's total population and recent changes, refer to OFM's April 1, 2022 population estimates or our Tax and Population Data webpage.

Components of State Population Change



Credit: Washington State Office of Financial Management

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Economic Factors

There are several economic factors that, for many, are instinctively incorporated into the budget forecasting process, especially if using judgmental forecasting and/or historical trend analyses In particular, economic conditions may have an impact on revenue projections, especially in jurisdictions that are heavily dependent upon retail sales tax.

Major components of economic modeling in the budget process include inflation, employment, population growth, and the prevalence or concentration of particular industries within the local jurisdiction.

STATE AND NATIONAL ECONOMIES

The current economic discussion is heavily focused around inflation – currently at or near 40-year highs – and the potential for an ensuing recession, as evidenced in articles on Kiplinger, Forbes, Deloitte Insights, and Morgan Stanley.

Although there are differing opinions on when a recession could occur and for how long it will last, with rising interest rates, inflation, and lingering supply chain issues, many experts feel a recession is likely sometime in 2023. Other factors that could impact the economy are the war in Ukraine and new COVID-19 variants.

MRSC recommends a couple of resources for economic data and forecasting for Washington State, including the Washington State Economic and Revenue Forecast Council (ERFC) and the King County Office of Economic and Financial Analysis (OEFA). Both agencies produce several reports which include national data, but their focus is local.

ERFC's June 2022 report highlights the continued addition of jobs in the state, a drop in COVID cases, and strong state-based revenue collections. Although strong state-based revenue collection might appear like a positive sign, some of it is attributed to inflation and higher prices of goods, which means more revenue in taxes.

EFRC's report highlights the Seattle consumer price index (CPI), which saw a seasonally adjusted increase of 9.1% between April 2021 to April 2022. This is 0.9% higher than the U.S. city average for the same period, at 8.2%.

Also noted in the June 2022 report are negative factors, such as higher interest rates, inflation, and supply chain issues. Inflation is expected to decrease to 3.5% in 2023 and then below 2% beginning in 2024 (see Table A4.1). Consumer spending is expected to continue to rise through the rest of 2022 and then begin to ease, while employment will continue to increase.

CONSUMER PRICE INDEX

The Consumer Price Index (CPI) is generally the most widely used measure of inflation. The CPI can impact local budgets in multiple ways, including:

- Statewide minimum wage and overtime salary thresholds for the coming year (announced September 30 and taking effect January 1);
- Cost-of-living adjustments and collective bargaining agreements;
- Pension adjustments; and

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- Automatic increases for certain fees or revenue sources such as multi-year levy lid lifts or, for some jurisdictions, impact fees.

For more information on the CPI – including differences between the CPI-U and CPI-W indexes and the various geographic regions – see our Consumer Price Index webpage. For current data, see the Bureau of Labor Statistics Consumer Price Index Pacific Cities and U.S. City Average Data Tables.

We will release information on the new minimum wage rates and overtime salary thresholds in our e-newsletters after they are released on September 30.

IMPLICIT PRICE DEFLATOR

The IPD is published quarterly by the federal Bureau of Economic Analysis (BEA), with monthly revisions. Its primary importance to local governments in Washington is in setting property tax levies for the coming year.

Taxing districts with a population of 10,000 or more may increase their total annual levy amount by 1% or the percentage increase of the IPD, whichever is less (RCW 84.55.005). If the 12-month change in the IPD is less than 1% as of September 25, these taxing districts cannot take the full 1% levy increase unless they adopt an ordinance or resolution of "substantial need." (Taxing districts with a population under 10,000 are not impacted.)

Current IPD data can be found in the BEA National Income and Product Accounts (NIPA), Table 1.1.9 (see Line 2, Personal Consumption Expenditures).

It appears the IPD increase will be well above 1% for 2022, which means cities and counties with a population of 10,000 or more should be able to increase next year's levy amounts the full 1% without declaring a substantial need.

On July 28, BEA released the first estimate of the Q2 2022 data, showing a preliminary 6.45% increase over Q2 2021. The Q2 2022 numbers will be revised once before the September 25 deadline (on August 25) but the revisions should be inconsequential. The next release date after that is not until September 29, after the statutory deadline in RCW 85.55.005.

When the official IPD figure is available on September 25, we will publish it on our Implicit Price Deflator webpage as well as in our e-newsletters.

Legislation That May Affect Your Budget

ADDRESSING TRANSPORTATION RESOURCES – ESSB 5974

ESSB 5974 is a lengthy and wide-ranging transportation bill. Among other things, this legislation increases the transportation tax authority of local jurisdictions effective July 1, 2022.

Section 406-407 – TBD Sales Tax

One of the funding mechanisms for transportation projects for cities and counties with transportation benefit districts (TBDs) is a TBD sales tax. Previously, cities and counties with TBDs were only able to impose a TBD sales tax up to 0.2% which required voter approval. The sales tax could be imposed for 10 years with the option of voters renewing the tax for one additional 10-year period. ESSB 5974 now allows a TBD sales tax up to 0.3%, with 0.1% of the sales tax allowed to be imposed councilmanically. It also removes the one-time renewal of the TBD sales tax and places no limit on the number of times voters can renew the TBD sales tax, with each renewal lasting 10 years.

Section 405 – Border Area Fuel Tax

Border area jurisdictions – defined as all cities and towns within 10 miles of an international border crossing and any TBD which has within its boundaries an international border crossing – have been able to impose an excise tax on the retail sale of motor vehicle fuel with voter approval. The rate of the tax was previously capped at one cent per gallon. For ballot propositions submitted to voters in calendar year 2022, the maximum amount of the border area fuel tax is two cents per gallon. After 2022, the maximum rate may be adjusted to reflect percentage change in the implicit price deflator for personal consumption between calendar year 2022 and when the tax is placed on the ballot for voter approval.

FISCAL FLEXIBILITY – E2SHB 1069

Passed during the 2021 legislative session, the Fiscal Flexibility bill allowed some expanded uses of various tax revenues through December 31, 2023. As a reminder, unless the legislature further extends or amends this bill, the following expanded uses under E2SHB 1069 will expire December 31, 2023:

- The Criminal Justice Sales & Use Tax (RCW 82.14.340) – the section which temporarily allows revenues to be used for government programs which have a reasonable relationship to reducing the numbers of people interacting with the criminal justice system including, but not limited to, reducing homelessness or improving behavioral health.
- The Real Estate Excise Tax (REET) First Quarter Percent (RCW 82.46.010) – the section which temporarily allows counties and cities to use greater of $100,000 or 35% of available funds for the operation of, maintenance of, and service support for, existing capital projects, including the provision of services to residents of affordable housing or shelter units.
- The REET Second Quarter Percent (RCW 82.46.035) – the section which temporarily allows counties and cities to use greater of $100,000 or 35% of available funds for the operation of, maintenance of, and service support for, existing capital projects.
- Criminal justice distributions to counties (RCW 82.14.310) and cities (RCW 82.14.320-.330) – the sections temporarily allowing these revenues to supplant existing funding.

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CANNABIS (MARIJUANA) EXCISE TAXES – E2SSB 5796

Effective June 9, 2022, E2SSB 5796 changes the formula for cannabis excise distributions to counties, cities, and towns, resulting in increased distributions and tying future distributions to actual cannabis sales. For details, see our Cannabis Excise Tax section. Also note that 2SHB 1210 replaces all references to "marijuana" in state law with the word "cannabis," so we will now be referring to the former marijuana excise tax as the "cannabis excise tax."

NO INITIATIVES THIS YEAR

The deadline for submitting signatures to the Secretary of State's Office to place an initiative on the November general election ballot was 5 PM on Friday, July 8. This year, no signatures were filed by the deadline, so there will be no statewide initiatives on the ballot.

Core Revenues

Property taxes and sales taxes are, for most cities and counties, the two largest revenue streams. Some cities also generate a significant amount of business & occupation (B&O) and utility tax revenues. While MRSC cannot forecast those revenues for you, we can point you toward resources to help you forecast these revenues within a reasonable margin of error.

Whatever your forecasting methodology, it is important to document the methodology and discuss it with your budget team.

For a detailed understanding of Washington's property tax, sales tax, B&O taxes, and other local revenue sources, download MRSC's City Revenue Guide and County Revenue Guide.

PROPERTY TAXES

The Department of Revenue (DOR) has created a property tax calendar for 2022 which explains the process, the various state and local entities responsible for its development, and when you may expect to receive important property tax forecasting information.

Your local county assessor plays a vital role in certifying the assessed valuations that will be used to set your levies for the upcoming year. Typically, the assessor will distribute property tax information during the second half of September each year. This information consists of assessed valuations, new construction valuations, and state utility valuations, as well as each jurisdiction's current levy amounts, levy rates, and maximum statutory levy rate. The county assessor will provide you with a levy limit worksheet specific to your jurisdiction that will form the basis of your property tax projection, and the assessor's office can also help you determine whether you have banked capacity available.

To see property tax and assessed valuation for all city and county general fund levies going back 10 years, as well as county road fund levies, see MRSC's Tax and Population Data webpage. For older data or other levies such as EMS or conservation futures levies, refer to the DOR Local Taxing District Levy Detail webpage.

For cities and counties of 10,000 population or greater: As stated earlier, it is unlikely that the implicit price deflator will fall below 1% this year, so you should be able to levy the full 1% annual increase without a finding of substantial need.

SALES TAXES

Sales tax revenues fluctuate depending upon local economic activity. To assist with your sales tax projections, it will be important to monitor actual sales tax revenues being reported and remitted to your entity. Cities and counties can access sales tax reports via the My DOR Partner Portal.

To see the last 10 years of annual sales tax distribution data for the "first half" and "second half" (general fund) sales taxes, see MRSC's Tax and Population Data webpage. Many jurisdictions have also imposed additional sales taxes that are restricted to certain purposes. Our webpage also includes a spreadsheet listing local sales tax rates and components, to help explain what portion of the local sales tax rate goes to which entity and what the money can be used for.

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B&O AND UTILITY TAXES

When forecasting B&O and utility taxes, it is important to know whether utilities are increasing their rates or whether local businesses are expanding or contracting.

BALLOT MEASURE PLANNING

If your jurisdiction is considering a voted revenue increase in the next year or two, such as a levy lid lift, bond measure, or voted sales tax, you must plan ahead and keep the various statutory requirements and deadlines in mind (see RCW 29A.04.321 for counties and RCW 29A.04.330 for cities and towns). Below are the key statutory deadlines; you may also refer to the Secretary of State's Elections Calendar.

Key Dates for Voted Revenue Increases

Election	Filing deadline	Election date	Approved sales tax changes take effect (RCW 82.14.055)	Approved property tax changes take effect (RCW 84.52.070)
2022 Primary	Already passed	August 2, 2022	January 1, 2023	2023
2022 General	August 2, 2022	November 8, 2022	April 1, 2023	2023
2023 Feb. Special	December 16, 2022	February 14, 2023	July 1, 2023	2024
2023 Apr. Special	February 24, 2023	April 25, 2023	January 1, 2024	2024
2023 Primary	May 12, 2023	August 1, 2023	January 1, 2024	2024
2023 General	August 1, 2023	November 7, 2023	April 1, 2024	2024

You should also consider whether any other jurisdictions are planning ballot measures that will appear on the same ballot, as well as whether your measure requires a simple majority (50% plus one) or a supermajority (60%) in order to pass.

Bond measures and 60% voted property taxes also require a certain minimum level of voter turnout compared to the most recent general election, referred to as "validation." Validation is not a problem for most jurisdictions in most years, but it can create difficulties for some jurisdictions in low-turnout special elections or in years immediately following high-turnout elections – such as 2023 and 2025 following the state/federal elections. For details and to see which types of ballot measures require validation, see MRSC's City Revenue Guide and County Revenue Guide.

To see how ballot measures have fared in other jurisdictions recently, see MRSC's Local Ballot Measure Database.

State Shared Revenues

The State of Washington distributes a number of “state shared revenues” to cities, towns, and counties. Some of these revenues are distributed to all entities solely on a population (per capita) basis, while others are based on different factors and/or are only distributed to jurisdictions that meet certain criteria.

Forecasting state shared revenues can be somewhat tricky. First of all, the state fiscal year begins July 1 and ends June 30, while all cities and counties in Washington use a calendar year budget (January 1 to December 31). As a result, legislation can and often does impact shared revenue distributions halfway through the local government budget year.

Secondly, it is impossible to predict what the legislature will do – in recent years, it has added new distributions (increased gas taxes, multimodal transportation, and cannabis excise taxes), reduced distributions (cannabis excise taxes, which were later restored), increased distributions (cannabis excise taxes once again), and attempted to eliminate distributions (the fire insurance premium tax, which was preserved by the governor’s veto). When creating long-range forecasts, remember that these resources are potentially vulnerable during each legislative session. Careful monitoring of legislative sessions will help you keep abreast of changes to these revenue sources, and strategically thinking and planning for potential shortfalls will help minimize the impacts to your budget.

And finally, some of the revenue distributions can vary significantly from year to year based on certain formulas, economic activity, and other factors.

We have provided our best estimates of the state shared revenue distributions for 2023 and 2024 based on the 2022-2023 state supplemental operating budget (July 1, 2022 to June 30, 2023) and economic and revenue forecasts created by the Economic and Revenue Forecast Council (ERFC). For those distributions that are done on a strictly per capita basis, we have provided per capita estimates (see the Per Capita Shared Revenue Forecast Tables near the end of this publication). You can also view the total estimated per capita distributions, tailored to your specific jurisdiction, in our online State Shared Revenue Estimator.

SHARED REVENUE DISTRIBUTION CALENDAR

Shared revenues are distributed on the last business day of the month. Some are distributed monthly and others quarterly, while the fire insurance premium tax is distributed on an annual basis, according to the schedule below.

Shared Revenue Distribution Calendar

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Gas Tax (MVFT)	●	●	●	●	●	●	●	●	●	●	●	●
Increased Gas Tax (MVFT)			●			●			●			●
Multimodal Distribution			●			●			●			●
Liquor Excise Tax	●			●			●			●		
Liquor Profits			●			●			●			●
Cannabis Excise Tax			●			●			●			●
Criminal Justice	●			●			●			●		
Fire Insurance Premium Tax					●							
City/County Assistance			●			●			●			●

POPULATION AND ANNEXATION ADJUSTMENTS

Changes in total distribution *amounts* (if any) begin each year on July 1, the beginning of the state's fiscal period. The per capita distribution *rates* are updated each year on January 1 to reflect the most recent OFM annual population estimates. Our 2023 per capita estimates are based on the April 1, 2022 OFM population estimates, with an **incorporated population of 5,156,008** and an **unincorporated population of 2,708,392**, for a **total statewide population of 7,864,400** (see the Population Estimates section).

In addition, OFM makes quarterly adjustments for any new annexations (see OFM's Central Annexation Tracking System). Cities that annex qualify for state shared revenue distributions on their new population base starting the first day of the quarter after the effective date of the OFM-approved annexation. Distributions for other cities, towns, and counties may be adjusted slightly each quarter as a result, but the overall impact on per capita distribution rates should be minimal.

The rest of this publication will describe the various state shared revenues distributed to cities and counties and provide projected distribution amounts and, for per capita revenues only, distribution rates.

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CANNABIS EXCISE TAX

The state's cannabis taxation collections and distribution are codified in RCW 69.50.530-.540 and provide for revenue sharing with cities and counties, but the formula is a bit complicated. (Note that new legislation this session – HB 1210 – replaced all references to "marijuana" in state law with "cannabis," so we are now referring to the former marijuana excise tax as the "cannabis excise tax.")

The state distributes a portion of the cannabis excise taxes to the Liquor and Cannabis Board (LCB) and various state agencies and programs on a quarterly basis.

Previously, the state treasurer would transfer any remaining unappropriated cannabis excise tax revenues into the state's general fund at the end of each state fiscal year (June 30). If those general fund deposits exceeded $25 million – which they easily did every year – the legislature appropriated an amount equal to 30% of those general fund deposits to cities, towns, and counties in the ensuing fiscal year, up to a maximum of $20 million per year. (This had previously been capped at $15 million.)

During the 2022 legislative session, SB 5796 modified the cannabis excise tax distributions effective June 6, 2022. Now, cities and counties will receive a percentage of the excise tax revenues (after various deductions for other programs). This means that this appropriation is no longer a fixed amount, but instead depends on actual cannabis sales.

For state fiscal year 2023 – beginning July 1, 2022 – the June 2022 ERFC economic and revenue forecast (see Table 3.18) projects total cannabis revenues of about $527 million, with deductions of about $32 million, leaving roughly $495 million to distribute. Of this projected $495 million, cities and counties will receive 5%, or roughly $24.75 million. This is an increase of about 24% over the previous $20 million distribution, with any future changes tied directly to the level of cannabis sales.

That local government amount will be divided the same as before:

- **Retail share:** 30% (1.5% of the total distribution after deductions) will go to local governments where retailers are physically located. This amount is prorated based on the share of total revenues generated and taxes collected.
- **Per capita share:** 70% (3.5% of the total distribution after deductions) will go to local governments that do not prohibit cannabis siting. This amount is distributed on a per capita basis. Counties must receive 60% based on each county's total proportional population (note that this is total population, not unincorporated population).

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Hypothetical Cannabis Excise Tax Distribution Scenarios	Eligible for per capita share?	Eligible for retail share?
Jurisdiction allows cannabis production, processing, and retail and has at least one retailer located within the jurisdiction.	Yes	Yes
Jurisdiction prohibits cannabis entirely and as a result has no retailers located within the jurisdiction.	No	No
Town took no action to prohibit cannabis, but is small enough that no cannabis businesses can locate there under state law due to the buffer requirements.	Yes	No
Jurisdiction prohibits cannabis producers and processors but allows retailers and has at least one retailer located within the jurisdiction.	No	Yes
Jurisdiction prohibits cannabis retail and has no retailers but allows cannabis production and processing.	No	No

Each year by September 15, the LCB must provide the state treasurer with the annual distribution amount for each county and city. Payments (if any) are distributed four times per year on the last day of each fiscal quarter (September 30, December 31, March 31, and June 30). The State Treasurer's Office distributes both the "per capita" and "retail" shares together using the same BARS code.

The distributions that you receive in September will form the basis for your budget projections for the forthcoming budget year.

Forecast

As was mentioned above, the methodology used for calculating the city and counties shares of both the retail share and per capita share of the cannabis excise tax has changed effective June 6, 2022.

Using ERFC's June 2022 forecast for cannabis excise tax, cities and counties will receive approximately $25.5 million in calendar year 2023 and $26.6 million in 2024. (These numbers differ slightly from the ERFC numbers we referenced earlier because we have converted them to a calendar year basis here instead of a state fiscal year basis.)

This change also impacts the September and December distributions for 2022, which will be about 24% higher than originally anticipated. As a result, the total distributions for the entire calendar year 2022 will be about 11.88% higher than originally anticipated.

Based on the June 2022 ERFC forecast, cannabis excise tax distributions to cities and counties are projected to increase by an additional 13.83% in calendar year 2023 and 4.54% in 2024.

Due to the various factors that can impact the allocation of the shares of the cannabis excise tax (changes in cities and counties that prohibit cannabis businesses, number and location of retailers, etc.) MRSC cannot forecast with certainty what individual jurisdictions can expect to receive in revenue from the cannabis excise tax. We recommend factoring these percentage increases into the calculations you make for your jurisdiction using your historical data and accounting for any changes in cannabis retail sales within your jurisdiction's boundaries.

Cannabis Excise Tax Distributions	
Eligible jurisdictions	**Per capita share:** All cities, towns, and counties that do not prohibit the siting of any state-licensed cannabis producer, processor, or retailer **Retail share:** All cities, towns, and counties with at least one cannabis retailer physically located within the jurisdiction
Estimated 2023 distribution	No estimate provided; depends on jurisdiction's proportional share of statewide cannabis retail sales as well as number and size of jurisdictions prohibiting cannabis businesses.
Payments received	Quarterly at the end of March, June, September, and December. Retail and per capita shares distributed together using same BARS code.
Revenue must be used for	The notes in RCW 69.50.540 reference RCW 69.50.101 and the stated intent of I-502, which states that cannabis legalization will "[allow] law enforcement resources to be focused on violent and property crimes [and generate] new state and local tax revenue for education, health care, research, and substance abuse prevention."

CITY-COUNTY ASSISTANCE DISTRIBUTIONS

The State of Washington imposes a real estate excise tax (REET) on each sale of real property (RCW 82.45.060), in addition to any local taxes.

1.4% of the state REET is deposited into the city-county assistance account (RCW 43.08.290) to provide assistance for certain cities and counties that meet the statutory qualifications (see the formulas in the tables below). Half of these funds are distributed to cities and the other half to counties.

These funds were originally intended to mitigate the loss of the motor vehicle excise tax (MVET) that was distributed to local governments as a means of equalization of sales tax.

The formula used to allocate city funding is based on a sales and property tax equalization formula and the 2005 MVET backfill levels. The maximum distribution for any eligible city was originally capped at $100,000, to be increased each year by the increase in the July implicit price deflator (IPD) for personal consumption expenditures. The 2022 cap for cities is $134,500.

City Assistance Distributions

City/Town Population	Distribution Formula
5,000 or less *Only eligible if per capita assessed value is less than 2x the statewide average for all cities*	**Greater of** • 55% sales tax equalization on "first half" local sales tax; • 55% property tax equalization based on per capita assessed values (per $1,000 AV); or • 2005 MVET backfill. *Not to exceed $134,500 (in 2022)*
Greater than 5,000 *Only eligible if per capita assessed value is less than the statewide average for all cities*	**Greater of** • 50% sales tax equalization on "first half" local sales tax; or • 55% property tax equalization based on per capita assessed values (per $1,000 AV) *Not to exceed $134,500 (in 2022)*

Any city that incorporates after August 1, 2005 is not eligible for funding.

If there are not enough revenues to fund the entire city distributions according to the formulas above, then they will be reduced proportionately. If there are more revenues than necessary to fund the above distributions, the excess is to be distributed proportionately on the basis of population among those cities that have qualified for city-county assistance and impose the full second half-cent of the sales and use tax under RCW 82.14.030(2).

The county formulas are shown on the next page. Unlike cities, there are no eligibility restrictions. The sales tax equalization threshold for counties was originally set at $250,000, to be increased each year by the increase in the

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July implicit price deflator (IPD) for personal consumption expenditures. The 2022 sales tax equalization threshold for counties is $324,212.

County Assistance Distributions	
Unincorporated Population	Distribution Formula
Greater than 100,000	**Sales tax equalization up to the greater of:** • $324,212 (in 2022); or • 65% of the statewide per capita average collected for "first half-cent" sales tax in unincorporated areas in the previous fiscal year
15,001 to 100,000	**Sales tax equalization up to the greater of:** • $324,212 (in 2022); or • 70% of the statewide per capita average for "first half-cent" sales tax in unincorporated areas in the previous fiscal year
15,000 or less	**Greater of** • Sales tax equalization to $324,212 (in 2022); • Sales tax equalization to 70% of the statewide per capita average for "first half-cent" sales tax in unincorporated areas in the previous fiscal year; or • The amount the county received in "backfill" for FY 2005 under section 716, Ch. 276, Laws of 2004 (amended state budget).

If there are not enough revenues to fund the entire county distributions according to the formulas above, then they will be reduced proportionately. If there are more revenues than necessary to fund the above distributions, the excess is to be distributed proportionately on the basis of the unincorporated population among those counties that have qualified for city-county assistance funding and impose the full second half-cent of the sales and use tax under RCW 82.14.030(2).

Certification and distribution dates

The Department of Revenue (DOR) must "certify" the amounts to be distributed – that is, how much money each county and each eligible city should receive according to the formula – each year. Preliminary estimates are available by September 1, with the final certification available by October 1 (once the September 25 implicit price deflator figure has been finalized).

Funds are required to be distributed quarterly on January 1, April 1, July 1, and October 1. In order for these distribution dates to be met, the transfers are made on the last day of the previous month in conjunction with the regular remittance of revenues from the State Treasurer's Office (OST) to local governments. As a result, the January 1 remittance is received on December 31, which is part of the current budget cycle for cities, towns, and counties instead of being received in the next budget period. This means that, for budgeting purposes, cities and counties are dealing with two different certification years.

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Here's how it works: when you pass your budget for 2023 later this year, you will know the amount for which you are certified for 2023, but the first payment from that certification will arrive in December and will become part of the current year's revenues. The amount you forecast for 2023 will depend on the October 1, 2022 certification, less the January distribution (received December 31), plus your "guesstimate" of your January 2024 distribution (certified October 1, 2023 and received December 31, 2023).

City-County Assistance Distribution Certification and Payment Dates

		Statutory Date for Distribution	Actual Payment Date *last business day of month*	Certification Date
2022 Budget	1st Quarter	April 1, 2022	March 2022	October 1, 2021
	2nd Quarter	July 1, 2022	June 2022	October 1, 2021
	3rd Quarter	October 1, 2022	September 2022	October 1, 2021
	4th Quarter	January 1, 2023	December 2022	October 1, 2022
2023 Budget	1st Quarter	April 1, 2023	March 2023	October 1, 2022
	2nd Quarter	July 1, 2023	June 2023	October 1, 2022
	3rd Quarter	October 1, 2023	September 2023	October 1, 2022
	4th Quarter	January 1, 2024	December 2023	October 1, 2023

The city-county assistance fund receives its revenues from the sales of real property, so when the real estate market is active funds are frequently sufficient to distribute. However, revenues decrease when there is a downturn in the economy, as was the case during the Great Recession and several years thereafter. During that time cities and counties received a decreased distribution. Because of the weighted formula, there was enough to fully fund the counties during many of those years, but cities received only a proportion of their certified amounts.

2022 Update

The statewide real estate market continues to be hot, although it may begin to cool with interest rates rising. In the first two quarters of calendar year 2022, counties received a total of just over $8 million in assistance funds. The "certification amount" for counties was roughly $4.6 million; because the total distributions have already exceeded that amount, all the remaining funds for the rest of the year are being distributed according to unincorporated population as described earlier. ERFC projects another distribution of about $4 million at the end of September, bringing the county total to about $12 million.

There will be one more payment this calendar year – the January 2023 distribution, which counties will receive at the end of December. The June forecast provided by ERFC estimates that this payment will be $3.13 million, for a total of about $15.16 million.

Cities have received an identical amount: $8 million through the first two quarters, with another $4 million anticipated at the end of September and a projected $3.13 at the end of December, for an estimated total of $15.16 million. The certification amount for cities was about $10.8 million, so any distributions above that amount will be allocated according to population as described earlier.

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To update your forecast for 2022, you can go to the Department of Revenue (DOR) City-County Assistance webpage and click on "2022 City and County Distributions." These spreadsheets show the amounts for which each city and county were certified in 2022. Remember to adjust the estimated total for the distribution date differences explained in the table above.

The preliminary estimates for City-County Assistance distributions in 2023 will be available in September. They will be posted on the DOR City-County Assistance webpage under "**2023 City and County Distribution Estimates.**"

2023 Forecast

As previously mentioned, the DOR will release the estimates in September. The June 2022 ERFC forecasts indicate a distribution of $11.38 million each for cities and counties. If this forecast holds, that would be a reduction of about 25% compared to 2022, but it would be more than sufficient for counties to surpass their certification amounts and likely enough for cities to receive their certification amounts too.

If you cannot wait until the release of the preliminary certification in September to make your budget estimate for 2023, then take your entity's percentage share of the 2022 certification and multiply it by the estimated pot of city or county revenue for 2023 of $11.38 million. This methodology assumes that your share of the last payment in 2022 (which will come from the October 1, 2022 certification) will be the same percentage amount as the first three payments, and this is a reasonably good assumption for most entities. But the September and October numbers will be the more reliable estimates, especially if you are one of those jurisdictions close to the limits on the distribution formula provided at the beginning of this discussion.

Editor's Note: The real estate excise tax revenues and forecasts are the work of Eric Swenson of the Washington State Economic and Revenue Forecast Council (ERFC).

CRIMINAL JUSTICE REVENUES – CITIES

There are two separate criminal justice distributions for cities, created by RCW 82.14.320 and 82.14.330. Each program originally (in state fiscal year 2000) appropriated a total of $4.6 million, to be increased each July by the "fiscal growth factor" set forth in RCW 43.135.025.

Before distributing these funds to the cities, both statutes authorize the state to appropriate up to 5% of the municipal criminal justice assistance funds to the Washington State Patrol crime laboratory system. See RCW 82.14.320(7) and RCW 82.14.330(4). The actual amount deducted fluctuates depending on each year's budget appropriations. During the current state fiscal biennium, the legislature has appropriated roughly 3.5% of these funds to the state patrol. See the FY 2023-23 supplemental operating budget (ESSB 5693 Sec. 402).

The total amount to be distributed in calendar year 2022, after deductions for the state patrol, is $11,402,114 for each of these two separate programs. The amount to be distributed for calendar year 2023 is projected to be $12,084,221 for each program, an increase of 6.0%. This estimate is based on the actual fiscal growth factor and legislative appropriations for FY 2023, plus estimates for FY 2024 based on the proposed fiscal growth factor (which will be finalized in November) and recent legislative appropriations.

As mentioned earlier in the New Legislation section, HB 1069 temporarily allows these funds to supplant existing revenues through December 31, 2023.

Criminal justice revenues created by RCW 82.14.320 – the "Criminal Justice – High Crime" distributions – are distributed partially based on crime rates and we cannot forecast them. The cities that may qualify for these funds know who they are and are aware of the problems they have in forecasting these revenues.

City Criminal Justice – High Crime	
Eligible jurisdictions	Any city or town with a crime rate over 125% of the annual statewide average that also meets the other requirements of RCW 82.14.320(2)
Estimated 2023 distribution	*No estimate provided. Determined by population, crime rates, and other factors.*
Payment received	Quarterly at the end of January, April, July, and October
Revenue must be used for	Criminal justice purposes; may temporarily replace or supplant existing criminal justice funding through December 31, 2023

Criminal justice funds created by RCW 82.14.330 have four different components for distribution:

- **Population:** 16%, or $1,933,475 is distributed to all cities and towns on a per capita basis, with each city receiving a minimum of $1,000 no matter how small its population.
- **Special Programs:** 54%, or $6,525,479 is distributed to all cities and towns on a strictly per capita basis to be used for innovative law enforcement strategies, programs to help at-risk children or child abuse victims, and programs to reduce the level of domestic violence or to provide counseling for domestic violence victims. While these funds must be spent in these specific areas, there is no requirement for how much must be spent in each area. The city's entire distribution could be spent in only one of these areas if the city wishes.
- **Contracted Services:** 10%, or $1,208,422, goes to cities that contract with another governmental agency for the majority of their law enforcement services. Cities that qualify for this distribution must notify the Department of Commerce (DOC) by November 30, 2022 to receive 2023 distributions. Cities are responsible for notifying DOC

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for any changes regarding these contractual relationships. However, any cities that are added to or removed from this list will only impact distributions for the next calendar year, and no adjustments will be made retroactively.

- **Violent Crime:** 20%, or $2,416,844, goes to cities with a three-year average violent crime rate (per 1,000 population) above 150% of the three-year statewide average. No city may receive more than $1.00 per capita. .

Below is a summary of the four distributions under RCW 82.14.330. These are the labels under which the state treasurer's office makes the quarterly distributions.

City Criminal Justice – Population	
Eligible jurisdictions	All cities and towns
Estimated 2023 distribution	$0.36 per capita; minimum distribution of $1,000 per city/town, which is factored into our calculations.
Payment received	Quarterly at the end of January, April, July, and October
Revenue must be used for	Criminal justice purposes; may temporarily replace or supplant existing criminal justice funding through December 31, 2023

City Criminal Justice – Special Programs	
Eligible jurisdictions	All cities and towns
Estimated 2023 distribution	$1.27 per capita
Payment received	Quarterly at the end of January, April, July, and October
Revenue must be used for	Innovative law enforcement strategies, programs for child abuse victims/at-risk children, and/or domestic violence programs

City Criminal Justice – Contracted Services	
Eligible jurisdictions	Any city or town that contracts with another local government agency for the majority of its law enforcement services
Estimated 2023 distribution	*No estimate provided. Determined by population and number of cities that contract for law enforcement.*
Payment received	Quarterly at the end of January, April, July, and October
Revenue must be used for	Criminal justice purposes; may temporarily replace or supplant existing criminal justice funding through December 31, 2023

City Criminal Justice – Violent Crime	
Eligible jurisdictions	Any city or town with a violent crime rate over 150% of the three-year statewide average.
Estimated 2023 distribution	*No estimate provided. Determined by crime rate and population; no city may receive more than $1.00 per capita.*
Payment received	Quarterly at the end of January, April, July, and October
Revenue must be used for	Criminal justice purposes; may temporarily replace or supplant existing criminal justice funding through December 31, 2023

CRIMINAL JUSTICE REVENUES – COUNTIES

Counties receive state shared criminal justice funds from the state general fund under the provisions of RCW 82.14.310. The initial appropriation, made by the state in fiscal year 2000, was $23.2 million and is increased each July by the "fiscal growth factor," the same as cities. The county funding formula includes population, crime rate, and the annual number of criminal cases filed in superior court.

Before distributing these funds to the counties, RCW 82.14.310(4) authorizes the state to appropriate up to 5% of the county criminal justice assistance funds to the Washington State Patrol crime laboratory system. The actual amount deducted fluctuates depending on each year's budget appropriations. During the current state fiscal biennium, the legislature has appropriated just under 4% of these funds to the state patrol. See the FY 2022-23 supplemental operating budget (ESSB 5693 Sec. 402).

The total amount to be distributed in calendar year 2022, after deductions for the state patrol, is $57,309,341. The total amount to be distributed for calendar year 2023, after deductions for the state patrol, is projected to be $60,755,021, an increase of 6.0 percent. This estimate is based on the actual fiscal growth factor and legislative appropriations for FY 2023, plus estimates for FY 2024 based on the proposed fiscal growth factor (which will be finalized in November) and recent legislative appropriations. Because revenues are not distributed on a strictly per capita basis, we cannot provide a per capita forecast.

HB 1069 temporarily allows these funds to supplant existing revenues through December 31, 2023.

County Criminal Justice	
Eligible jurisdictions	All counties
Estimated 2023 distribution	*No estimate provided. Determined by population, crime rate, and number of criminal cases filed in superior court.*
Payment received	Quarterly at the end of January, April, July, and October
Revenue must be used for	Criminal justice purposes; may temporarily replace or supplant existing criminal justice funding through December 31, 2023.

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FIRE INSURANCE PREMIUM TAX

RCW 41.16.050 requires each municipality having a regularly organized full-time fire department with paid firefighters to establish a firefighters' pension fund. This fund is to consist of all bequests, gifts, or donations given or paid to the municipality for the firefighters' pension fund; a proportional share of the state tax on fire insurance premiums; property taxes collected under the provisions of RCW 41.16.060; interest on the investments of the fund; and any contributions made by firefighters themselves.

The state collects a 2% tax on the premiums of all insurance policies written. Of the tax collected on fire policies and the fire component of homeowner's and commercial multi-peril policies, 25% is distributed to cities and fire districts that have firefighters' pension funds.

The moneys received from the tax on fire insurance premiums under RCW 41.16.050 are distributed to those cities and fire districts with a pre-LEOFF firefighters' pension fund based on their proportionate number of paid firefighters – a calculation known as the "ratio value." Each year, on or before January 15, cities and fire districts must certify to the State Treasurer their number of paid firefighters. The Office of Insurance Commissioner (OIC) must certify the fire insurance premiums collected between April 1 and March 31 and remit the funds to the State Treasurer's office by May 15th. These moneys are then distributed to the reporting jurisdictions by the end of May each year based upon the calculated ratio value of insurance premiums/firefighters.

The fire insurance premiums certified for distribution by OIC for 2022 amounted to $6,090,496, and the number of paid firefighters reported on January 15 by 44 cities and 2 fire districts was 4,830. The ratio value for 2022 is $1,261 per paid firefighter, which is 1.81% greater than our forecast made last year.

2023 Projection

This state shared revenue distribution has been the subject of debate in previous legislative sessions when the economic forecast has been challenging. In the initial 2021-2023 state budget, this distribution was not fully funded (in error). The appropriation was amended during the 2022 legislative session and is now fully funded.

The Washington State Office of the Insurance Commissioner forecasts a 5.0% increase in the fire insurance premium tax in 2023, and we have also projected that the number of paid firefighters will remain flat in 2023. We want to remind our readers that these forecasts are estimates only. The actual figures will be calculated in 2023 based on the number of paid firefighters reported, fire insurance loss experience, and premiums paid.

2023 Distribution Estimates: Fire Insurance Premium Tax	
Eligible jurisdictions	All cities and fire districts with a pre-LEOFF firefighters' pension fund
Estimated 2023 ratio value	$1,324 per paid firefighter
Payment received	In one lump sum on May 30, 2023
Revenue must be used for	Firefighters' pension fund

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LIQUOR REVENUES

Liquor revenues have two separate distributions that are received at different times. There is a state shared distribution from the liquor revolving account for licensing fees (this is referred to by the state and others as "liquor profits"), and there is a distribution from the liquor excise tax account that represents a portion of the excise tax collected on liquor sales. The total distribution from liquor profits is the same each year, while the total distribution for liquor excise taxes varies depending on actual liquor sales.

Liquor Excise Taxes

The formula works as follows:

1. 35% of liquor excise tax collected is deposited in the "liquor excise tax fund" for distribution to cities, towns, and counties (RCW 82.08.160(1)).
2. $2.5 million each quarter ($10 million a year) is deducted from the liquor excise tax fund and remitted to the state general fund (RCW 82.08.170(3)).
3. Of the remaining amount, 80% is distributed to cities (based on population) and 20% is distributed to counties (based on unincorporated population).

Based on the June 2022 ERFC report, the revised forecast for calendar year 2022 distributions is $36,148,742 for cities and $8,389,671 for counties.

For calendar year 2023, the ERFC projects a 2.21% decrease to liquor excise tax revenues that are to be deposited into the liquor excise tax fund. After deductions, the total local government distributions are estimated to be $35,348,165 for cities and $8,189,526 for counties.

It's important to note that the distributions to cities and counties occur with a lag of one quarter after the collections are made by the state. This difference in timing makes state estimates and our estimates hard to compare. When comparing distributions by the state treasurer's office to the ERFC forecasts there is usually a variation of plus or minus 2%.

Liquor Excise Taxes	
Eligible jurisdictions	All cities, towns, and counties
Estimated 2023 distribution	**Cities:** $6.86 per capita **Counties:** $3.02 per capita (unincorporated population)
Payment received	Quarterly at the end of January, April, July, and October
Revenue must be used for	At least 2% must be used for a licensed or certified alcohol or drug addiction program. The remaining 98% may be used for any lawful governmental purpose.

Editor's Note: The liquor excise tax forecasts are the work of Lance Carey of the Washington State Economic and Revenue Forecast Council (ERFC).

Liquor Profits

Initiative 1183 in 2011 not only privatized liquor sales in Washington, but it also changed the types of liquor revenues collected by the state. The state is now collecting revenue in the form of license fees from distributors and retailers, rather than profits from the state-run liquor stores. However, the Liquor and Cannabis Board (LCB) continues to call these funds “liquor profits.” A portion of these collections go to cities, counties, and border jurisdictions. Codified as RCW 66.24.065, it reads:

> The distribution of spirits license fees under RCW 66.24.630 and 66.24.055 through the liquor revolving fund to border areas, counties, cities, towns, and [MRSC] must be made in a manner that provides that each category of recipients receive, in the aggregate, no less than it received from the liquor revolving fund during comparable periods prior to December 8, 2011. An additional distribution of ten million dollars per year from the spirits license fees must be provided to border areas, counties, cities, and towns through the liquor revolving fund for the purpose of enhancing public safety programs.

The “comparable periods prior to December 8, 2011” were determined by the Office of Financial Management (OFM) to be December 2010, March 2011, July 2011, and September 2011. The liquor profit revenue for cities, counties, and border areas for those four quarters was $39,438,000. To this amount, LCB adds the $10 million to enhance public safety programs for a total liquor profits distribution of $49,438,000 each year. Of that amount, 0.3%, which equals $148,314, is distributed to border cities and counties based on traffic totals, crime statistics, and per capita law enforcement spending. The remaining $49,289,686 is distributed as follows:

- Cities receive 80%, or $39,431,749 annually, distributed proportionately by population.
- Counties receive 20%, or $9,857,937 annually, distributed proportionately by unincorporated population.

As noted in the statute, $10 million of the $49,438,000 – just under 20.23% – must be spent on “enhancing public safety programs.” We recommend that each city or county split its distribution so that it can account separately for the portion that must be spent on public safety. To calculate the portion that must be used for public safety purposes, multiply your distribution by 20.23%, or 0.2023. In addition, at least 2% of your distribution must be used for a licensed or certified alcohol or drug addiction program under RCW 71.24.555.

When forecasting liquor profits beyond next year’s budget it’s important to note that the total city and county distributions will remain the same from year to year unless the legislature amends the statute. The initiative did not include any measures to account for inflation. We have incorporated a per capita ratio value in the rate tables at the end of this chapter and the ratio values will vary slightly each year due to population changes.

Liquor Profits	
Eligible jurisdictions	All cities, towns, and counties that do not prohibit the sale of liquor
Estimated 2023 distribution	**Cities:** $7.65 per capita **Counties:** $3.64 per capita (unincorporated population) *Border cities and counties get extra distributions based on traffic totals, crime rate, and per capita law enforcement spending*
Payment received	Quarterly at the end of March, June, September, and December
Revenue must be used for	At least 20.23% must be used for public safety programs, and an additional 2% must be used for an approved alcohol or drug addiction program. The remaining 77.77% may be used for any lawful governmental purpose.

TRANSPORTATION DISTRIBUTIONS

All cities, towns, and counties receive three separate transportation distributions. The first is the motor vehicle fuel tax (MVFT), which is distributed as a percentage of the total fuel taxes collected statewide. The other two, the "increased motor vehicle fuel tax" and "multi-modal" distributions, were created in 2015 and consist of direct transfers from the state transportation fund, so those allocations are not impacted by actual fuel tax collections.

MVFT and increased MVFT distributions must be used for highway purposes, while the multi-modal funds may be used for any transportation purpose.

> **Reminder:** RCW 47.30.050 *requires cities and counties to spend at least 0.42% of their MVFT funds each year on pedestrian, equestrian, or bicycle trails, unless 0.42% would amount to $500 or less (for cities and towns) or $3,000 or less (for counties). In other words, this requirement applies to any city that receives approximately $119,047 and any county that receives approximately $714,286 or more in MVFT revenue per year. Cities and counties also have the option to place these dedicated funds in a capital reserve or special revenue fund to accumulate the resources, so long as the funds are used for paths or trails within a 10-year time frame.*

Motor Vehicle Fuel Tax

Cities and towns receive MVFT distributions on a per capita basis under RCW 46.68.090(2)(g), (4)(a), and (5)(a), less state adjustments found in RCW 46.68.110(1) and (2) and the Small City Pavement and Sidewalk account.

For counties, MVFT revenues are distributed under RCW 46.68.090(2)(h) and (4)(b)and (5)(b), less state adjustments found in RCW 46.68.120(1) and (3) and withholding for the County Road Administration Board (CRAB) as required by RCW 46.68.090(2)(h). The distribution formula includes annual road costs and "need" in addition to population (RCW 46.68.120(4)). Distributions for each county are calculated by CRAB and certified at their July board meeting; CRAB will notify counties directly of the allocations for the next fiscal period. CRAB also posts Motor Vehicle Fuel Tax Reports on its website for current and past distributions.

Fuel taxes in Washington are assessed as cents per gallon, so motor vehicle fuel tax (MVFT) revenues – and therefore the MVFT distributions to cities and counties – depend on the number of gallons sold, not the dollar value of the sales.

Transportation and revenue forecasts are released each quarter by the Transportation Revenue Forecast Council. Each year, we use the calendar year second quarter as the basis for forecasting the MVFT distributions for cities and counties. The June 2022 forecast provides a forecast span of 10 years plus a look back of two years and uses multiple factors in the process.

For cities, WSDOT is projecting total gas tax distributions of $93,843,390 in calendar year 2023 (a 4.7% increase from calendar year 2022) and $94,971,133 in 2024 (an additional 1.2% increase).

For counties, WSDOT projects total distributions of $140,850,362 in calendar year 2023 (a 3.4% increase from calendar year 2022) and $142,563,005 in 2024 (an additional 1.2% increase).

However, the tax revenue forecasts provided by WSDOT are updated each quarter and often vary slightly from earlier projections. Unexpected events such as major snowstorms and the COVID-19 pandemic have significantly reduced gas tax collections in the past.

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Motor Vehicle Fuel Tax	
Eligible jurisdictions	All cities, towns, and counties
Estimated 2023 distribution	**Cities:** $18.20 per capita **Counties:** *No estimate provided. Determined by CRAB formula based on population, annual road costs, and annual monetary needs.*
Payments received	At the end of every month
Revenue must be used for	Highway purposes

Editor's Note: Scott Smith, the Transportation Economist for the Budget and Financial Analysis Division of the Department of Transportation, has provided calendar year fuel tax forecasts for cities and counties to assist with these projections.

Increased Motor Vehicle Fuel Tax and Multi-Modal Funds

In addition to the monthly gas tax distributions, counties, cities, and towns receive a share of the multi-modal funds and the 2015 increase in fuel tax (RCW 46.68.126). This legislation provides a flat amount of over $25 million annually to counties, cities, and towns, allocated as follows:

- Increased MVFT: $11,719,000 per year
- Multi-modal funds: $13,393,000 per year

These revenues are split equally between cities and counties and are not impacted by actual fuel sales; the total distribution amounts remain the same every year unless the legislature were to change them. City distributions are based on population, while county distributions are established by the same CRAB formula as the MVFT described earlier (RCW 46.68.120(4)) and set at the July CRAB board meeting.

Increased Motor Vehicle Fuel Tax	
Eligible jurisdictions	All cities, towns, and counties
Estimated 2023 distribution	**Cities:** $1.14 per capita **Counties:** *No estimate provided. Determined by CRAB formula based on population, annual road costs, and annual monetary needs.*
Payments received	Quarterly, at the end of March, June, September, and December
Revenue must be used for	Highway purposes

Multimodal Transportation	
Eligible jurisdictions	All cities, towns, and counties
Estimated 2023 distribution	**Cities:** $1.30 per capita **Counties:** *No estimate provided. Determined by CRAB formula based on population, annual road costs, and annual monetary needs.*
Payments received	Quarterly, at the end of March, June, September, and December
Revenue must be used for	Any transportation purposes

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PER CAPITA SHARED REVENUE FORECAST TABLES – CITIES

The tables below include projections and estimates for the 2023 and 2024 budget years. These are based upon current information that we have received from WSDOT, ERFC, and other state agencies, population growth, and inflationary increases such as the fiscal growth factor for criminal justice. Also see our online State Shared Revenue Estimator for forecasts tailored to your specific jurisdiction (for 2023 only).

Please note that these are point-in-time estimates as of July 2022. Some of these distributions are relatively stable and are not likely to change much unless there is new legislation. However, other distributions may fluctuate. In particular, gas tax and liquor excise revenues depend upon gallons sold at the pump and actual liquor sales, while per capita cannabis distributions depend on actual cannabis sales as well as the number of jurisdictions that ban cannabis businesses. To mitigate fluctuations in these more volatile revenues, consider reviewing the state's quarterly Transportation Revenue Forecast (for MVFT) and ERFC Revenue Forecast (overall liquor and cannabis revenues).

Total Distributions to All Cities and Towns

	2019	2020	2021	2022 Revised	**2023 Forecast**	**2024 Forecast**
Gas Tax (MVFT)	$94,901,817	$84,622,419	$87,160,975	$89,620,532	**$93,843,390**	**$94,971,133**
Multi-Modal Distribution	6,696,500	6,696,500	6,696,500	6,696,500	**6,696,500**	**6,696,500**
Increased MVFT	5,859,500	5,859,500	5,859,500	5,859,500	**5,859,500**	**5,859,500**
Liquor Profits	39,431,749	39,431,749	39,431,749	39,431,749	**39,431,749**	**39,431,749**
Liquor Excise	26,478,004	31,128,298	35,660,272	36,148,742	**35,348,165**	**35,822,259**
Cannabis - Per Capita Share Only	4,200,000	4,200,000	4,900,000	6,265,140	**7,131,600**	**7,455,700**
Criminal Justice – Special Programs	5,175,405	5,463,429	5,802,336	6,157,142	**6,525,479**	**6,918,198**
Criminal Justice – Population	1,533,453	1,618,794	1,719,211	1,824,338	**1,933,475**	**2,049,836**
TOTAL	$184,276,428	$179,020,689	$187,230,543	$192,003,643	**$196,769,858**	**$199,204,875**

Estimated Per Capita Distributions for Each City/Town

	2019	2020	2021	2022 Revised	**2023 Forecast**	**2024 Forecast**
Gas Tax (MVFT)	$19.62	$17.23	$17.30	$17.65	**$18.20**	**$18.11**
Multi-Modal Distribution	1.38	1.36	1.33	1.32	**1.30**	**1.28**
Increased MVFT	1.21	1.19	1.16	1.15	**1.14**	**1.12**
Liquor Profits	8.15	8.03	7.83	7.77	**7.65**	**7.52**
Liquor Excise	5.47	6.34	7.08	7.12	**6.86**	**6.83**
Criminal Justice – Special Programs	1.07	1.11	1.15	1.21	**1.27**	**1.32**
Criminal Justice – Population[1]	$0.30	$0.31	$0.33	$0.36	**$0.36**	**$0.38**

1. Minimum distribution of $1,000 per city/town, regardless of population.

PER CAPITA SHARED REVENUE FORECAST TABLES – COUNTIES

The tables below include projections and estimates for the 2023 and 2024 budget years. These are based upon current information that we have received from ERFC and other state agencies, as well as population growth. Also see our online State Shared Revenue Estimator for forecasts tailored to your specific jurisdiction (for 2023 only).

Please note that these are point-in-time estimates as of July 2022. Some of these distributions are relatively stable and are not likely to change much unless there is new legislation. However, other distributions may fluctuate. In particular, liquor excise revenues depend upon actual liquor sales, while cannabis distributions depend on actual cannabis sales as well as the number of jurisdictions that ban cannabis businesses. To mitigate fluctuations in liquor revenues, consider reviewing the quarterly ERFC Revenue Forecast, which can provide an indicator of overall liquor and cannabis revenues.

Total Distributions to All Counties

	2019	2020	2021	2022 Revised	**2023 Forecast**	**2024 Forecast**
Liquor Profits	$9,857,937	$9,857,937	$9,857,937	$9,857,937	**$9,857,937**	**$9,857,937**
Liquor Excise	6,113,616	7,134,560	8,267,553	8,389,671	**8,189,526**	**8,308,050**
Cannabis - Per Capita Share Only	6,300,000	6,300,000	7,350,000	9,397,710	**10,697,400**	**11,183,550**
TOTAL	$22,271,553	$23,292,497	$25,475,490	$27,645,318	**$28,744,863**	**$29,349,537**

Estimated Per Capita Distributions for Each County

	2019	2020	2021	2022 Revised	**2023 Forecast**	**2024 Forecast**
Liquor Profits[1]	$3.80	$3.74	$3.69	$3.67	**$3.64**	**$3.61**
Liquor Excise[1]	$2.36	$2.71	$3.10	$3.12	**$3.02**	**$3.04**

1. Liquor distributions are based on unincorporated population.

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PUB-22-0053