



City of Stevenson

Administrator's Office

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TO: City Council
FROM: Ben Shumaker, Interim City Administrator
DATE: March 20, 2025
SUBJECT: Transportation Benefit District Tax Revenue Discussion

Introduction

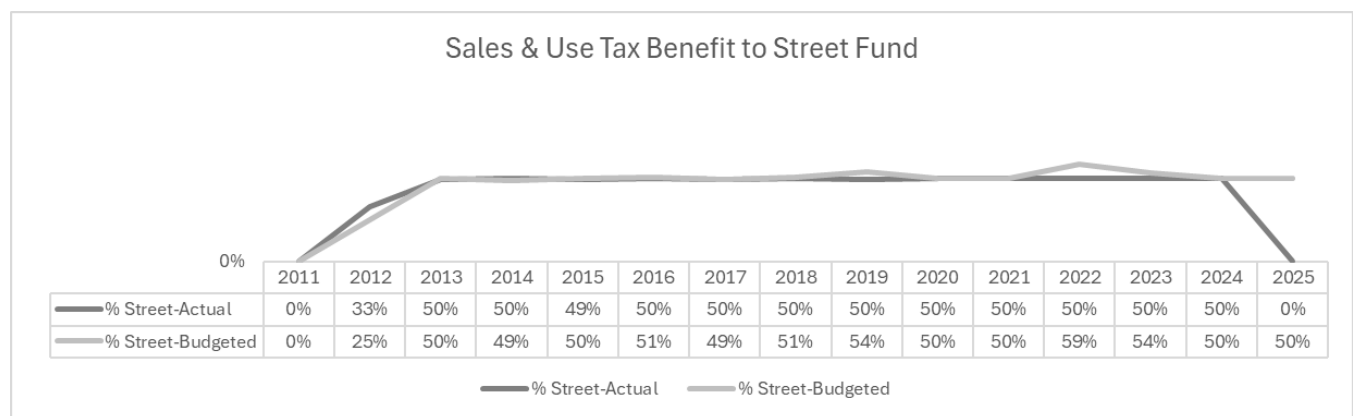
If the voter authorized 0.3% Sales & Use Tax is imposed by ordinance of the City Council, it will be the first time in 13 years that the tax rate has changed. With this change will come several new accounting and budgeting procedures. This memo initiates a conversation to establish this City Council's expectations for those procedures.

Two clarifications on verb tenses/time:

- This memo was written prior to Council imposition of the tax. Its verb tenses assume it will be imposed. Its author understands adoption and collection of tax revenues in 2025 is not a foregone conclusion.
- This memo uses the abbreviation "TBD" in place of "Transportation Benefit District". Nowhere herein is "to be determined" abbreviated.

Historic Tax Accounting

The City first imposed a local sales & use tax in 1976 (0.5%). The last sales & use tax increase occurred in 2012 when the City Council imposed an additional "0.5%" consistent with Skamania County's adoption of the same in late 2011¹. At the time of imposition, the City Council justified the additional tax based "...the need for additional revenues to meet general operating and maintenance needs for the Street and Current Expense [General] Funds...". However, each full year since the tax was imposed, the street fund has received half of all sales & use tax revenues.



¹ State enabling statutes for this additional sales & use tax require revenue sharing when both a county and a city therein impose the tax. Instead of receiving 0.5%, cities receive 0.425% and share 0.075% with their counties. When either but not both impose the tax, the one imposing the tax is entitled to collections based on the full 0.5%.

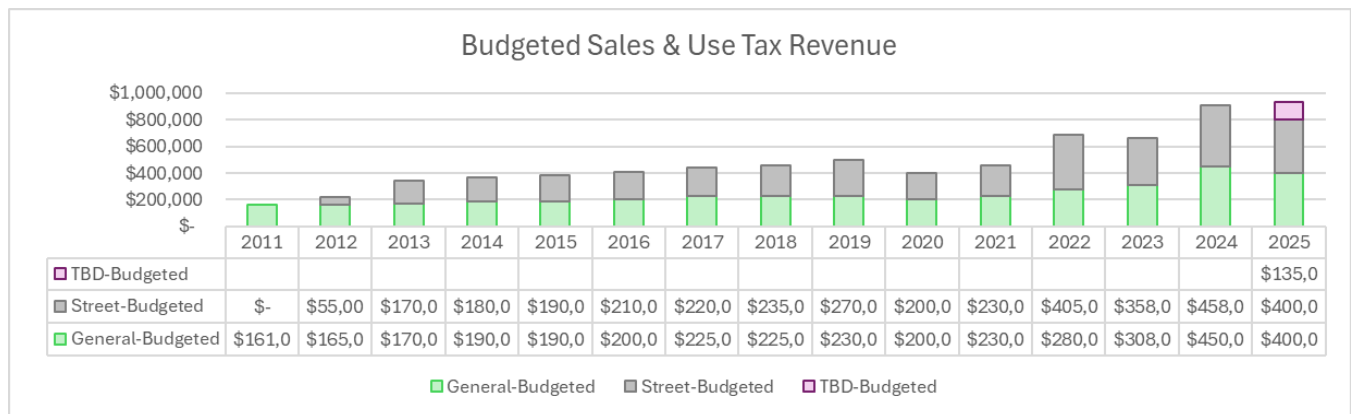
In other words, all of the newly imposed tax has been devoted to the Street Fund plus some that had previously been allocated to the General Fund (see Note 1 regarding revenue sharing and the marginal difference between 0.5% and 0.425%).

New Tax Accounting

Accounting for the new TBD sales & use tax increase will involve creation of a new special revenue fund for the Transportation Benefit District. All revenues collected from the new tax will be devoted to that fund. Expenditures from the new fund will need to be justified based on consistency with SMC 12.07.040. These expenditures may occur as direct expenditures within the TBD fund or as transfers out to the Street or Capital Improvement funds. *The Council should expect to amend the 2025 Budget prior to the beginning of collections on July 1st.*

Historic Tax Budgeting

The 2012 sales & use tax increase occurred at the end of the last recession. Annual budgets thereafter broadly assumed steady increases in sales & use tax revenues through 2019. That changed with the pandemic in 2020 when the budget projected receipts similar to 2015/2016. Projected revenues began rising again through 2024. In 2025 the projection was reduced based, in part, on the projected decline in high-dollar construction projects.

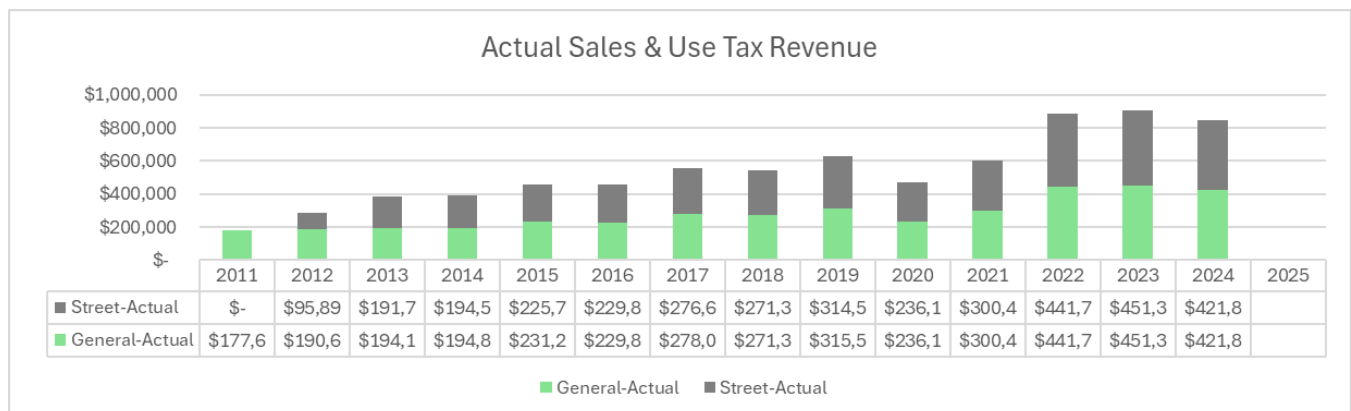


New Tax Budgeting

With collections set to begin on July 1st the budget projection for the new sales & use tax revenues will conservatively be \$135,000 or less in 2025. Initial projections for the following 9.5 years are to collect \$270,000 in each of the nine full years, and \$135,000 for the final half year of the 10-year period. Future year budget projects are likely to differ from these 2024-era projections.

Historic Tax Collections

Actual sale & use tax collections have varied broadly over the last 14 years. Total collections in 2013, the first full year after imposing the additional 0.5% tax, were \$385,923. In 2023 they were \$902,677.



With the exception of 2024 which was 7% below the projected revenue, actual sales & use tax collections exceeded budget projections. The additional revenue beyond the projection ranged from 5% in 2014 to 36% in 2023.

New Tax Collections

It remains to be seen what revenues are collected based on the new tax. The volatility of historic collections leads this author to conclude future collections will also be volatile. In other words, there will be years when the revenue collected is less than and/or more than \$270,000. Whatever the actual collections are for 2025 and beyond, all the revenues must be used appropriately according to the establishing documents of the Transportation Benefit District. The Transportation Benefit Fund will grow and shrink based on those collections and expenditures.

Water & Sewer Rate Structures

Based on the \$270,000 revenue projections, the City is poised to stop diverting that amount from the General Fund to the Street Fund and start diverting it to the Water/Sewer Fund instead. The rate structure for customer water and sewer rates for 2025 through 2028 accounts for the new infusion of revenue by reducing the expectations on customers.

Additional Utility Revenue	\$135k to Water			\$0 to Water			\$135k to Sewer			\$0 to Sewer		
MF Transient Billing Option	Current Method \$0	As Comm. -\$10k	As Single Family +\$40k	Current Method \$0	As Comm. -\$10k	As Single Family +\$40k	Current Method \$0	As Comm. -\$140k	As Single Family +\$175k	Current Method \$0	As Comm. -\$140k	As Single Family +\$175k
Rate Forecast (2024-2025)	5.5% Annual Rate Increase	5.5% Annual Rate Increase	5.0% Annual Rate Increase	7.0% Annual Rate Increase	7.0% Annual Rate Increase	6.5% Annual Rate Increase	10%	16%	5% in '24 3% in '25	10%	16%	6% in '24 3% in '25
Rate Forecast (2026-2028)							3%	3%	3%	3.5% in '26-'27 3% in '28	3.5% in '26 3% in '27-'28	3%

Instead of water rates increasing by 7% each year from 2025-2028, the projected revenue allows for increases of 5.5%. Instead of sewer rate increases of 3.5% in 2026 and 2027 the projected revenue allows for increases of 3%. Sales & use tax revenues will fill the gap.

Transfer Mechanism

Two mechanisms are available to infuse the Water/Sewer Fund with additional revenue²:

- a) Initial Transfer-In: with this mechanism the projected \$270,000 would be transferred from the General Fund to the Water/Sewer Fund as part of the initial budget for each year, or
- b) Monthly Allocation of sales & use tax revenues: with this mechanism a sum equal to 0.3% of the taxable value involved in each month's sales & use tax remittance³ will be directed to the Water/Sewer Fund.

² Continuous monitoring of revenues and expenses can result in adaptive management of the budgets. The mechanisms available through adaptive management are not addressed here because they are expected alongside both of the mechanisms discussed.

³ The Washington Department of Revenue collects sales & use taxes on the City's behalf and provides us a monthly remittance equal to our taxation rate. Current remittances involve a single line item for both the first 0.5% tax imposed since 1976 and the additional "0.5%" tax imposed since 2012. Future remittances will have an additional line item for the new 0.3% TBD tax.

In years when 0.3% of the taxable value equals \$270,000, there will be no difference between the 2 mechanisms. In years when actual collections differ from the \$270,000 budget projection, each mechanism will have different impacts. The table below outlines some of those results for each of the 4 funds involved in this discussion: **General Fund**, **Street Fund**, **Transportation Benefit Fund**, **Water/Sewer Fund**. Additional discussion will be provided in the verbal report.

Mechanism	Collections are less than \$270,000	Collections are more than \$270,000
Initial Transfer-In	<ul style="list-style-type: none"> • General Fund. Fund will suffer from shortfall while also subsidizing the Waster/Sewer Fund • Street Fund. Fund will suffer from shortfall • Transportation Benefit Fund. Fund will suffer from shortfall • Water/Sewer Fund. Fund will not be impacted 	<ul style="list-style-type: none"> • General Fund. Fund will realize the greatest benefit from the surplus • Street Fund. Fund will benefit from the surplus • Transportation Benefit Fund. Fund will benefit from the surplus • Water/Sewer Fund. Fund will not be impacted
Monthly Allocation	<ul style="list-style-type: none"> • General Fund. Fund will suffer from shortfall • Street Fund. Fund will suffer from shortfall • Transportation Benefit Fund. Fund will suffer from shortfall • Water/Sewer Fund. Fund will suffer from shortfall 	<ul style="list-style-type: none"> • General Fund. Fund will benefit from surplus • Street Fund. Fund will benefit from surplus • Transportation Benefit Fund. Fund will benefit from surplus • Water/Sewer Fund. Fund will benefit from surplus

In short, an Initial Transfer-In will protect the Water/Sewer Fund from volatility in sales & use tax collections. This protection ensures the fund is not impacted if collections are less than current projections. It also prevents the Water/Sewer Fund from benefiting when collections are more than \$270,000. A Monthly Allocation positions the Water/Sewer revenues to ride the waves of market volatility.

From Analysis to Action

While “conservative” budgeting—focused on the Water/Sewer Fund—would call for the stability of a Transfer-In to that Enterprise Fund, staff can’t truly recommend that course of action. The decision involves differing impacts on all 4 funds, and all 4 funds are important in the City’s service to the public.

Instead, staff sees this as a situation where there is no “right” course of action, only the “best” course of action according to the Council’s collective wisdom. The analysis presented here is presented to prompt discussion of that “best” course. The discussion is encouraged and may be guided by analysis of each of the 4 quadrants of the table above.

Next Steps

After hearing the discussion (or consensus if consensus can be ascertained), staff will prepare draft documents for Council review and approval. Minimally, this will include an ordinance amending the 2025 budget. It may also involve a strategic priority assessment, a resolution and/or some other policy rationale so future Councils understand the collective wisdom leading this Council to select its “best” course.

Prepared by,

Ben Shumaker
Interim City Administrator