

Olympia-Tumwater RFA Proposed Fire Benefit Charge Structure – Continued Discussion

July 25, 2022

Re-cap on the RFA Finances

- The RFA Plan needs to identify funding sources and needs.
- The main funding sources available under statute are:
 - A **fire levy** (property tax)
 - A **fire benefit charge** (FBC) – an annual fee, sized based on anticipated use of fire response resources; key factors in the fee are the physical size and type of structures. Land is not part of the FBC calculation.
- A **7-year finance plan** accompanies the Plan so that we know what resources will be needed over the first 7-year period of the RFA.
- The summary on the 7-year finance plan is presented again **below**.
- Tonight's discussion is about finalizing the Fire Benefit Charge structure.

RFA Draft Financial Model

Projected Expenditures & Revenues

	2023 ⁽¹⁾	2024	2025	2026	2027	2028	2029	2030
Budget		39,545,057	41,258,726	44,763,463	46,902,576	49,186,773	50,830,778	52,610,821
% change, year to year			4.3%	8.5%	4.8%	4.9%	3.3%	3.5%
Budget as property tax rate equiv.(2)		1.86	1.83	1.81	1.78	1.86	1.79	1.73
Transfers to reserves		1,385,000	1,455,250	2,462,843	2,560,114	2,513,122	2,620,586	2,733,265
Beginning Cash Balance		10,000,000	9,024,883	10,746,390	10,923,433	9,881,498	10,741,712	11,423,826
Fire Levy collections	\$0	15,472,141	15,857,912	16,253,314	16,658,588	19,904,389	20,400,735	20,909,474
Property Tax Levy Rate		1.00	0.96	0.93	0.89	1.00	0.96	0.93
Other revenues		9,797,799	13,758,322	14,174,072	14,603,016	15,045,588	15,502,238	15,973,431
FBC collections	\$0	13,300,000	14,364,000	15,513,120	16,599,038	17,097,010	17,609,920	18,138,217

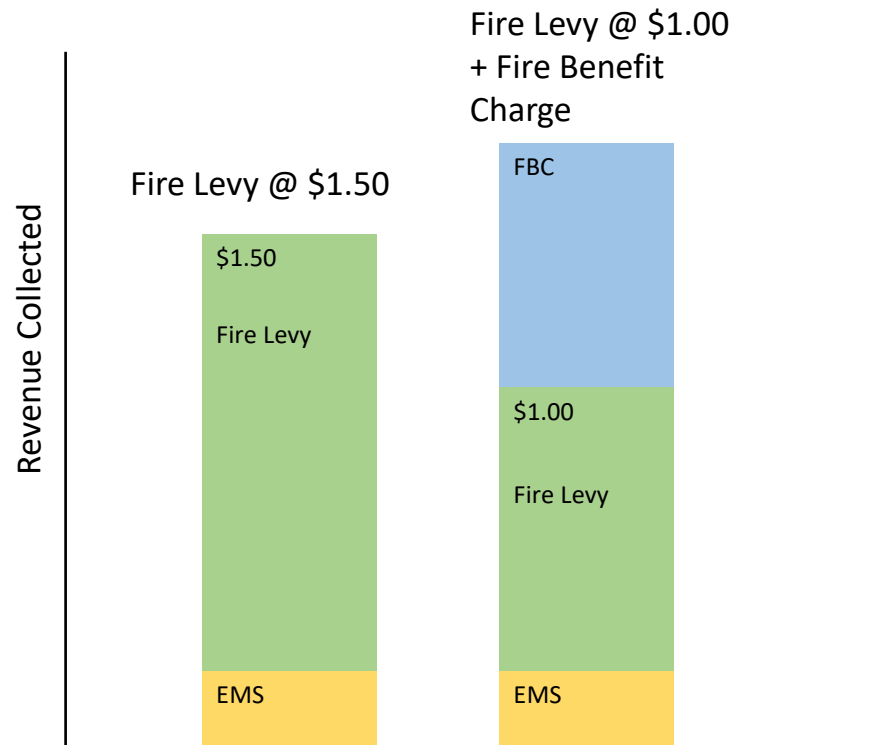
(1) August-December 2023 will be funded by City budgets.

(2) Assuming total AV increases every year by 6.5%

The model assumes a voter approved fire levy lid lift in 2027 to take effect in 2028, and a “councilmanic” bond for apparatus in 2025

RFA Major Revenue Sources:

Fire Levy
Fire Benefit Charge
EMS Levy allocation



Graph shows 2 approaches to RFA funding

- If EMS allocation and Fire Levy of \$1.50/\$1,000 AV are not sufficient, a Fire Benefit Charge can increase revenue collections
- In exchange for a FBC, the maximum fire levy drops one-third to \$1.00/\$1,000 AV
- FBC collections in any year cannot exceed 60% of operating budget
- Unlike property taxes, FBC is not subject to the 1% collections cap: it is a revenue stabilization tool
- If an FBC is requested when the RFA is formed, the vote threshold to establish the RFA and authorize the FBC (one ballot) is 60% approval

What is a Fire Benefit Charge (FBC)?

- ▶ A Fire Benefit Charge (FBC) is not a tax.
- ▶ A FBC is not based on the value of property.
- ▶ An FBC is fee based on the fire-response needs of a structure.
 - ▶ Key factors: type of structure (residential or commercial or...) and size of improvements (square footage).
- ▶ Land is not subject to a benefit charge.
- ▶ **Exemptions:** Generally, properties exempt from property tax will also be exempt from an FBC.
- ▶ Discounts typically added for sprinklers, and alarms, if data available.
- ▶ **The benefit charge formula and collection amount is set annually by the board of commissioners.** There is an annual appeals process.
- ▶ The FBC bill is sent as part of property tax bill by the assessor/treasurer and paid like property tax.

How does the FBC work?

Everyone uses the **same basic formula**; what changes are the **structure categories** and the **weights for each category**, and **any discounts/surcharges**.

The consulting team would be glad to set up a separate briefing on the details of the FBC formula and data. Just let us know.

1. Identify categories of structures you will use in your FBC formula. Typical set below.	2. Identify square footage and type of each structure in your jurisdiction and place it in the appropriate category	3. Determine the weighting for each category (Board policy action)	4. Identify any discounts/exemptions applicable to the property, e.g. --sprinklers, senior citizen/disabled	5. Do the math!
Mobile Home Single Family Residential Multifamily Small commercial Medium Commercial Large Commercial	County assessor records provide this information.	Weights increase with the size and complexity of the structure and its use. It's not a straight line—some small commercial establishments may have an FBC like a single-family residence. The weighting reflects the additional resources needed to put out a fire at these different types of structures.	County assessor records provide this information This is another policy decision—if <i>data is available to implement it</i> .	Determine the bill for each parcel / structure

The FBC Proposal: Goals/guidelines

- Use an approach that is substantially similar as that used by other RFAs.
- Recognize the limitations on FBCs per statute:
A benefit charge imposed must be reasonably proportioned to the measurable benefits to property resulting from the services afforded by the authority, RCW 52.26.180(5)
- Weighted average of the square footage of each category to apportion the percentage of revenue in each category.

Summary of proposal: Classifications & Weights

- **Classifications**

- Mobile homes (1 class)
- Residential (1)
- Apartments (1)
- Commercial (6)

- **Weight of “1”** given to Small Commercial (up to 5,000 sq. ft) – everything else is weighted above or below that.
- Proposed formula has a single fixed weight for each classification except Commercial; weights for Commercial structures increase as size of structures increase.

Proposed Weight Ranges by Classification

Structure Classification	# of tiers in this classification	Proposed Weights	# of parcels in this category
Residential	3	.58 for each of the 3 categories <i>(essentially, there's just one residential category)</i>	20,246
Mobile Home	1	.45 <i>(So, a 1,000 sq. foot mobile home pays less than a 1,000 sq. foot residence)</i>	454
Apartments 5 units or more	1	1.45	354
Commercial	6	Increasing from 1 to 5 as square footage grows <i>(See next slide)</i>	2,142

A structure with a lower weight will pay a smaller FBC as compared to a structure of the same square footage and a higher weight.

Commercial Tiers & Weights

Tier	Max Sq. Ft in this Tier	Weight	# of parcels in this category
Commercial 1	5,000	1	1300
Commercial 2	20,000	1.5	611
Commercial 3	50,000	2	145
Commercial 4	100,000	3	53
Commercial 5	200,000	4	29
Commercial 6	Over 200,000	5	4

Discounts and Hazard Surcharges

- No Hazard surcharges proposed.
- Discounts: given limited data, proposing a 10% discount for properties that are sprinklered.

Some notes:

- The parcel data base has been reviewed to eliminate properties that are known to be exempt from an FBC (state owned, nonprofit low- income housing, etc.) There are likely still parcels in the data base that are exempt.
- Sprinkler data is not yet in the data base: this is separate data that the Fire Departments have.
 - Olympia has required sprinklers in commercial buildings over 5,000 sq. ft built since 2014. There are around 500 such buildings in the 2 cities that could potentially qualify for the proposed 10% discount.
- *Both these facts mean that the data shown slightly over-estimates likely FBC collections.*
- It is also possible that some parcels are misclassified.
- This proposal can be modified.

Summary of the FBC proposed structure & cost shares by sector—if the RFA were created in 2022

Fire Benefit Charge Factors and Totals for 2022

Fire District OT

Factor

Max Sq Ft

Residential 1: 0.58, 1,500

Residential 2: 0.58, 3,000

Residential 3: 0.58, No Max

Apartments: 1.45

Mobile Homes: 0.45

Balancing Factor: 0.01

Cost Per Gallon: 83.38

Sprinkler: 0.9

Olympia Tumwater Both

Both

Factor

Max Sq Ft

Commercial - 1: 1, 5,000

Commercial - 2: 1.5, 20,000

Commercial - 3: 2, 50,000

Commercial - 4: 3, 100,000

Commercial - 5: 4, 200,000

Commercial - 6: 5, No Max

Commercial Subtotals

1,300	Commercial 1	\$922,168.95	3,197,380
611	Commercial 2	\$1,250,577.69	5,691,774
145	Commercial 3	\$705,502.73	4,607,705
53	Commercial 4	\$557,287.28	3,595,337
29	Commercial 5	\$565,352.85	3,743,373
4	Commercial 6	\$138,793.85	998,374

Residential Subtotals

2,020	Residential 1	\$577,772.60	2,453,571
12,980	Residential 2	\$5,212,643.71	29,512,895
5,246	Residential 3	\$2,757,717.53	19,920,777

# Parcels		FBC \$	Square Feet
20,246	Residential	\$8,548,133.84	51,887,243
2,142	Commercial	\$4,139,683.35	21,833,943
454	Mobile Home	\$87,842.02	527,061
354	Multi Unit	\$725,826.06	4,318,633
23,196	Total District	\$13,501,485.27	78,566,880

Sprinkler discount

Total collected from each Classification

Total to be collected in 2024—
estimate based on 2022 data

Questions from Committee & Staff Team response

Q: Should we add a classification for residential hotels? We don't want to create a disincentive to convert those to apartments.

A: The team recommends against this.

- The apartment weight proposed is 1.48.
- The smallest commercial category weight proposed is 1 (for structures under 5,000 sq. foot). Larger commercial structures are weighted 1.5, 2, 3, 4 and 5.
- There is only one hotel in smallest category (that would be less than an apartment). All other hotels would be weighted more heavily than apartments.
- Overall, the team is very reluctant to add new categories that are not found in other FBC structures, given the statutory limitations and the scrutiny that changes would draw.

Questions, continued

Q: What about adding classifications for theatres and nightclubs?

A: The team recommends against this. We don't have a lot of data to support that these are different from other similarly sized commercial structures. No other jurisdictions we know of have created classifications like this.

Questions, continued

Q: Instead of showing the average home size and related FBC, what is the median home size and the FBC that would result from the proposed formula?

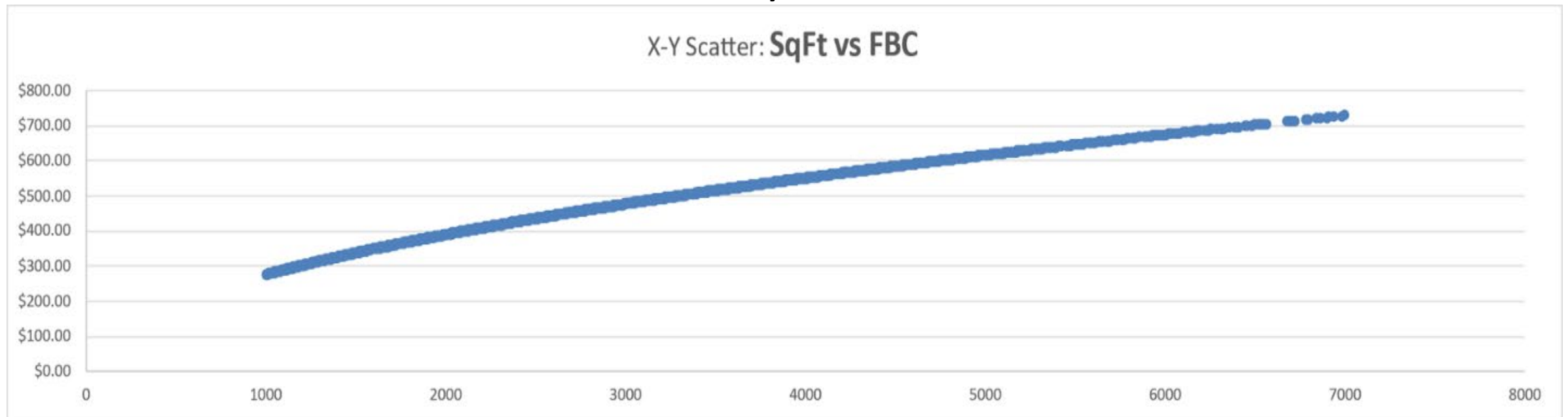
A: The team is recommending we use a home size example of 2,000 sq. ft. We will provide an online calculator where people can confirm their exact FBC based on their exact square footage.

Reminder: square footage for the FBC includes garages and outbuildings larger than 400 sq. ft.

Questions, continued

Q: How does the FBC grow for single family residences?

A: The chart below shows how the FBC grows for single family residential structures. It is basically linear.



Questions, continued

Q: Are the exemptions from FBC like the exemptions from property tax?

A: Yes. Based on data for property tax exemptions in the two cities, there are a total of 20,246 Residential Parcels with FBC (Excludes mobile homes)

- 880 received Senior Citizen Discount
- There are 3 levels of discount:
 - 569 receive 75% discount
 - 179 receive 50% discount
 - 132 receive 25% discount

Other Questions

Q: Are the mobile crisis units integrated into the proposed RFA organization?

A: No. This has never been part of the discussion. Those are fully funded through separate means today. This could be added to the RFA in the future.

Q: Should a communications staff position be added to the RFA structure?

A: The team recommends against this. Adequate staffing is in place to cover these duties through other means.

Shifting Gears: Explaining FBC costs

The schedule for RFA funding

- If approved by voters, the RFA will be established in August 2023.
- 2023 RFA costs come from the balance remaining in City fire department budgets.
- In 2024, the new RFA funding begins.
- The 2023-2024 City budgets need to plan for the possibilities that the RFA will be approved---and that it won't.

Explaining the cost of the RFA for residents and businesses

- RFA funding comes primarily from 2 components:
 - A **fire levy** --- **property tax** that cannot exceed \$1.00/\$1,000 AV without voter approval
 - A **fire benefit charge** -- a fee, imposed annually, based on structure size/type.
- The **net cost** to residents and businesses depends on what each City does with its **city property tax levy** when the fire department cost is removed from the City budgets.
- The current City fire department costs, translated to a property tax equivalent, are not the same, and both exceed \$1.00/\$1,000 AV.

The net cost impact is the result of property tax and the FBC

- The assumption is that **each City will reduce its general property tax levy by an amount equal to the new RFA property tax.**
 - Minus \$1.00/\$1,000 AV from the City, Plus \$1.00/\$1,000 from the RFA
- Based on this assumption, there would be no change in property tax collections in 2024 as a result of the RFA.
- To the extent current fire department costs exceed \$1.00/\$1,000, each City will redirect those revenues to other priority programs.
 - In Tumwater, public safety programs will be the focus
 - In Olympia, the focus is largely public safety and homeless response
 - These choices will be confirmed in the 2023-2024 budgets

What about the Fire Benefit Charge?

- The FBC will be a new charge, separate from the RFA property tax.
- The FBC is calculated separately for each parcel based on its square footage, and the type of property (commercial, single family, etc.)
- The **total amount to be collected with an FBC changes each year** based on the RFA total budget needs that cannot be met through property tax. Unlike property taxes, the FBC is not capped by an annual growth rate of 1% plus the value of new construction.
- The Board of Commissioners can also adjust the weights and structure classifications, as well as discounts and surcharges, each year.
- There is an **annual appeals process** if property owners feel their FBC is incorrect.

What is a good example for the FBC for an average city resident?

- Most residents live in a single-family house.
- The **average** house size (**including garages**) is around 2575 sq. ft. This was the basis for examples shared last meeting.
- The Committee asked for examples based on the **median** house size.
- The median house size is just under 2500 (again, **including garages**).
- People may consider their house size only thinking of living space; a typical garage will add 375-625 sq. ft.
- The next slide shows a range of residential FBCs.

FBC for mid-range size homes

Single Family Residential Square Footage	2022 Estimate of FBC
1500 square feet	\$337
2000 square feet	\$389
2500 square feet	\$435

Square footage includes not just living space, but also garages and any structures over 400 sq. ft. in size.

Assuming the Cities both reduce their property taxes by \$1.00/\$1,000 AV (equal to the RFA fire levy), then **regardless of the assessed value of a home, this is the net estimated increase in cost to a homeowner from the RFA in year 1.**

The FBC numbers (2022 example) summarized

- Residential properties in total are 66% of the total square footage in the RFA and pay 63.3% of the total FBC.
- Commercial properties are 27.7% of the square footage and pay 30.6% of the total FBC.
- The largest commercial properties pay about 2.6 X the FBC cost on a square footage basis as compared to a small commercial property.
- Apartments are 5.4% of the square footage and pay 5.3% of the total FBC.

Back up slides from previous presentation

Context: City property taxes are a small portion of total property taxes

For the average single-family residence in Olympia, the RFA would add about 5.5% to the total combined **property tax/FBC** bill, if it were in place in 2022.

Estimated Olympia Property Tax - Residential

Assessed Value	Square Feet
\$ 680,000	2,575

	Current	Tax Paid	W/ RFA	Total Paid	
Olympia Schools	4.55786	\$ 3,099	\$ 4.56	\$ 3,099	
State Schools	2.68037	\$ 1,823	\$ 2.68	\$ 1,823	
City of Olympia	2.21410	\$ 1,506	\$ 1.21	\$ 826	Reduce \$ 680
Thurston County	0.98003	\$ 666	\$ 0.98	\$ 666	
Olympia Met Park Dist	0.54791	\$ 373	\$ 0.55	\$ 373	
Medic One	0.35000	\$ 238	\$ 0.35	\$ 238	
Timberland Library	0.28799	\$ 196	\$ 0.29	\$ 196	
Port of Olympia	0.15069	\$ 102	\$ 0.15	\$ 102	
Conservation Futures	0.03231	\$ 22	\$ 0.03	\$ 22	
Olympia Excess Levy	0.11820	\$ 80	\$ 0.12	\$ 80	
Regional Fire Authority	0	\$ -	\$ 1.00	\$ 680	Shift from Olympia to RFA
Total Property Tax Payment	11.92	\$ 8,105	\$ 11.92	\$ 8,105	
Fire Benefit Charge	0	\$ -	Calc	\$ 442	
Grand Total Payment		\$ 8,105		\$ 8,547	
FBC Percent Change				5.45%	

Because we are assuming both cities will reduce their property tax by the amount of the RFA fire levy, the **net difference in each example is the amount of the FBC** --- regardless of the underlying City property tax rate or assessed property value.

Sample Residential	Bldg Value	Land Value	Total AV	Total Prop. Tax Rate	Total Prop. Taxes	Reduced Total Tax Rate	Reduced Prop. Tax	RFA Tax Rate	RFA Taxes	Structure SqFt	FBC	RFA Total Taxes+FBC	Total RFA Increase*
R1	170,100	99,500	269,600	11.92	\$ 3,213	10.919	\$ 2,944	\$ 1.00	\$ 270	890	\$ 65	\$ 3,278	\$ 65
R2	129,800	106,100	235,900	11.92	\$ 2,812	10.919	\$ 2,576	\$ 1.00	\$ 236	1320	\$ 79	\$ 2,891	\$ 79
R3	438,600	111,800	550,400	11.92	\$ 6,560	10.919	\$ 6,010	\$ 1.00	\$ 550	3255	\$ 497	\$ 7,057	\$ 497
R4	540,900	158,400	699,300	11.92	\$ 8,335	10.919	\$ 7,636	\$ 1.00	\$ 699	3267	\$ 498	\$ 8,833	\$ 498
R5	854,900	200,000	1,054,900	11.92	\$ 12,573	10.919	\$ 11,518	\$ 1.00	\$ 1,055	4466	\$ 582	\$ 13,155	\$ 582

*As compared to current Olympia property tax payment in 2022.

Mobile Home and Apartment Examples

Sample Mobile Homes

Sample Mobile Homes	Bldg Value	Land Value	Total AV	Total Prop. Tax Rate	Total Prop. Taxes
M2	66,500	147,900	214,400	11.92	\$ 2,555
M5	3,300	159,800	163,100	11.92	\$ 1,944
M6	237,900	193,500	431,400	11.92	\$ 5,142

Reduced Total Tax Rate	Reduced Prop. Tax	RFA Tax Rate	RFA Taxes	Structure SqFt	FBC	RFA Total Taxes+FBC	Total RFA Increase
10.919	\$ 2,341	\$ 1.00	\$ 214	600	82.7166	\$ 2,638	\$ 83
10.919	\$ 1,781	\$ 1.00	\$ 163	952	208.3845	\$ 2,152	\$ 208
10.919	\$ 4,710	\$ 1.00	\$ 431	1572	267.7769	\$ 5,410	\$ 268

Sample Apartments

Sample Apartments	Bldg Value	Land Value	Total AV	Total Prop. Tax Rate	Total Prop. Taxes
A4	4,063,200	966,000	5,029,200	11.92	\$ 59,943
A5	11,308,000	834,800	12,142,800	11.92	\$ 144,730
A6	221,800	53,300	275,100	11.92	\$ 3,279
A7	14,581,100	1,054,400	15,635,500	11.92	\$ 186,360

Reduced Total Tax Rate	Reduced Prop. Tax	RFA Tax Rate	RFA Taxes	Structure SqFt	FBC	RFA Total Taxes+FBC	Total RFA Increase
10.919	\$ 54,914	\$ 1.00	\$ 5,029	5,100	\$ 1,554	\$ 61,497	\$ 1,554
10.919	\$ 132,587	\$ 1.00	\$ 12,143	10,250	\$ 1,983	\$ 146,713	\$ 1,983
10.919	\$ 3,004	\$ 1.00	\$ 275	21,120	\$ 3,163	\$ 6,442	\$ 3,163
10.919	\$ 170,724	\$ 1.00	\$ 15,636	103,401	\$ 6,298	\$ 192,658	\$ 6,298

Commercial Examples

Sample Commercial 1- (400-4,999SqFt)

Sample Commercial	Bldg Value	Land Value	Total AV	Total Prop. Tax Rate	Total Prop. Taxes	Reduced Total Tax Rate	Reduced Prop. Tax	RFA Tax Rate	RFA Taxes	Structure SqFt	FBC	RFA Total Taxes+FBC	Total RFA Increase
C1.2	191,000	182,600	373,600	11.92	\$ 4,453	10.919	\$ 4,079	1.00	\$ 374	1500	\$ 581	\$ 5,034	\$ 581
C1.3	188,600	135,600	324,200	11.92	\$ 3,864	10.919	\$ 3,540	1.00	\$ 324	2140	\$ 694	\$ 4,558	\$ 694
C1.4	108,500	161,000	269,500	11.92	\$ 3,212	10.919	\$ 2,943	1.00	\$ 270	3000	\$ 822	\$ 4,034	\$ 822

Sample Commercial 2 (5,000-19,999SqFt)

Sample Commercial	Bldg Value	Land Value	Total AV	Total Prop. Tax Rate	Total Prop. Taxes	Reduced Total Tax Rate	Reduced Prop. Tax	RFA Tax Rate	RFA Taxes	Structure SqFt	FBC	RFA Total Taxes+FBC	Total RFA Increase
C2.1	474,700	288,400	763,100	11.92	\$ 9,095	10.919	\$ 8,332	1.00	\$ 763	5000	\$ 1,061	\$ 10,157	\$ 1,061
C2.3	1,122,600	473,500	1,596,100	11.92	\$ 19,024	10.919	\$ 17,428	1.00	\$ 1,596	15000	\$ 2,481	\$ 21,505	\$ 2,481
C2.4	1,208,800	2,037,700	3,246,500	11.92	\$ 38,695	10.919	\$ 35,449	1.00	\$ 3,247	19540	\$ 2,832	\$ 41,527	\$ 2,832

Larger Commercial Examples

Sample Commercial 3 (20,000-49,999SqFt)

Sample Commercial	Bldg Value	Land Value	Total AV	Total Prop. Tax Rate	Total Prop. Taxes
C3.1	1,237,800	667,200	1,905,000	11.92	\$ 22,706
C3.3	5,892,700	593,500	6,486,200	11.92	\$ 77,309

Sample Commercial 4 (50,000-99,999SqFt)

C4.1	4,756,600	312,300	5,068,900	11.92	\$ 60,416
C4.2	8,096,200	681,500	8,777,700	11.92	\$ 104,621
C4.4	5,367,800	1,010,500	6,378,300	11.92	\$ 76,023

Sample Commercial 5 (100,000-199,999SqFt)

C5.1	4,985,100	647,000	5,632,100	11.92	\$ 67,129
C5.4	36,648,400	6,882,400	43,530,800	11.92	\$ 518,844

Sample Commercial 6 (200,000+SqFt)

C6.1	>\$30M			11.92	\$ 418,983
C6.2	<\$4M			11.92	\$ 66,994

Reduced Total Tax Rate	Reduced Prop. Tax	RFA Tax Rate	RFA Taxes	Structure SqFt	FBC	RFA Total Taxes+FBC	Total RFA Increase
10.919	\$ 20,801	\$ 1.00	\$ 1,905	20035	\$ 3,824	\$ 26,530	\$ 3,824
10.919	\$ 70,823	\$ 1.00	\$ 6,486	44200	\$ 5,680	\$ 82,989	\$ 5,680
10.919	\$ 55,347	\$ 1.00	\$ 5,069	50333	\$ 9,091	\$ 69,507	\$ 9,091
10.919	\$ 95,844	\$ 1.00	\$ 8,778	65834	\$ 10,397	\$ 115,019	\$ 10,397
10.919	\$ 69,645	\$ 1.00	\$ 6,378	90804	\$ 12,211	\$ 88,234	\$ 12,211
10.919	\$ 61,497	\$ 1.00	\$ 5,632	100778	\$ 17,152	\$ 84,281	\$ 17,152
10.919	\$ 475,313	\$ 1.00	\$ 43,531	147156	\$ 20,726	\$ 539,570	\$ 20,726
10.919	\$ 383,830	\$ 1.00	\$ 35,153	210,000+	\$ 31,278	\$ 450,260	\$ 31,278
10.919	\$ 61,374	\$ 1.00	\$ 5,621	240,000+	\$ 33,610	\$ 100,605	\$ 33,610

Q&A / Discussion