City of West Richland

Basics of City Finance

City of West Richland

Who creates the rules?

- SAO – Washington State Auditors Office
  - Prescribes methods of accounting and reporting in WA State
- GASB – Governmental Accounting Standards Board
- GAO – Government Accountability Office
- AICPA – American Institute of Certified Public Accountants
  - Issues statement of auditing standards
- GFOA – Government Financial Officers Association
- Legal Regulation
  - Fiscal policies, budgets, etc.

City of West Richland

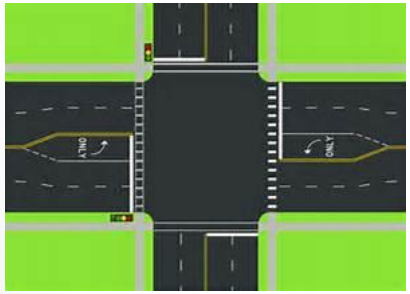
What makes it different

Private Sector

- Profit – designed to demonstrate the degree to which capital has been maintained
- Budget is a financial plan
- Shareholder value – focus on transactions and events that affect earnings
- Income is expected to exceed cost of production or service

City of West Richland

Government



Public Services

- Services rather than profit
- Fiscal and operational accountability
- Legal budgets
- Demonstrate compliance with finance related legal and contractual issues
- Tax supported – program revenues are NOT expected to cover the costs

City of West Richland

Other Differences

- **Governments are "managed" by:**
  - Elected Officials
- **Government is accountable to:**
  - Citizens
  - Oversight bodies and other government entities (federal, state, county) through mandates, grant compliance, etc.
- **Open public meetings**
- **Legal Budget**
  - Legally binding document
  - Sets spending limits
- **Use Fund Accounting**
  - Provide fiscal accountability at activity level

City of West Richland

What is a Fund?

- A fund is set of accounts used to account for resources that are segregated for specific purposes due to special regulations, restrictions, or limitations.
- Defined as a fiscal and accounting entity with a self-balancing set of accounts.
- The number and type of funds will depend upon the number and types of activities of the city/town.
  - It's similar to running a different company for each activity or program that the city/town provides

City of West Richland

Fund Types

General Government

- General
- Special Revenue
  - Street Fund
  - Library Fund
  - Criminal Justice Fund
- Debt Service
  - General Obligation
- Capital Projects

Proprietary

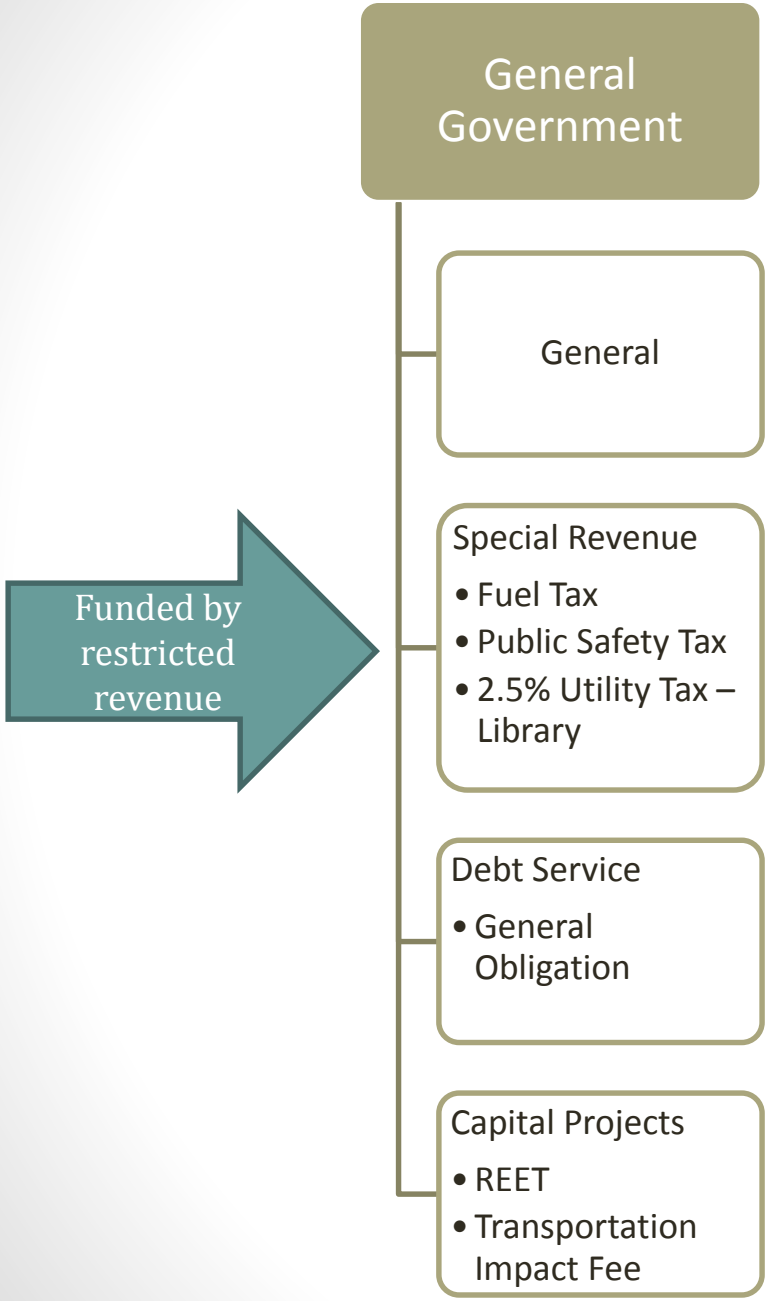
- Enterprise
  - Water
  - Sewer
  - Irrigation
  - Stormwater
  - Solid Waste
- Internal Service

Fiduciary

- Trust
- Agency

City of West Richland

Fund Types



REVENUE SOURCES

- Taxes
  - Property; Retail Sales Tax; Utility Tax; Leasehold; Special Taxes
- Charges for Services
  - Interfund charge for service
  - Park/Transportation Impact Fees
- Licenses & Permits
  - Building Permits
- Intergovernmental
  - State Shared Revenues
- Grants/Loans/Bonds
- Fines & Forfeitures
- Interest Income
- Contributions/Donations
- Judgments & Settlements

City of West Richland

Fund Types

Proprietary

Enterprise

- Water
- Sewer
- Irrigation
- Stormwater
- Solid Waste

REVENUE SOURCES

- Fees & User Charges
- System Connection Charges
- Grants/Loans/Bonds
- Rental Fees
- Interest Income

City of West Richland

Types of Funds

- **General Fund**
  - Chief operating fund of state/local government
  - Used to account for all financial resources except those required to be accounted for in another fund
- **Special Revenue Funds**
  - To account for the proceeds of resources that are restricted or committed for purposes other than debt service or capital projects
- **Debt Service Funds**
  - To account for the accumulation of resources for, and the payment of, general long-term debt principal and interest

City of West Richland

Types of Funds

- **Capital Projects**
  - To account for financial resources to be used for the acquisition or construction of major capital facilities
- **Proprietary Funds**
  - Enterprise Funds
    - Operated and financed similar to private business, where intent of governing body is cost recovery
    - Account for operations financed through user charges
  - **Internal Service Funds**
    - Used to finance goods or services provided by one department/agency to other departments of the government.
    - Used to allocate the cost of providing services to other funds

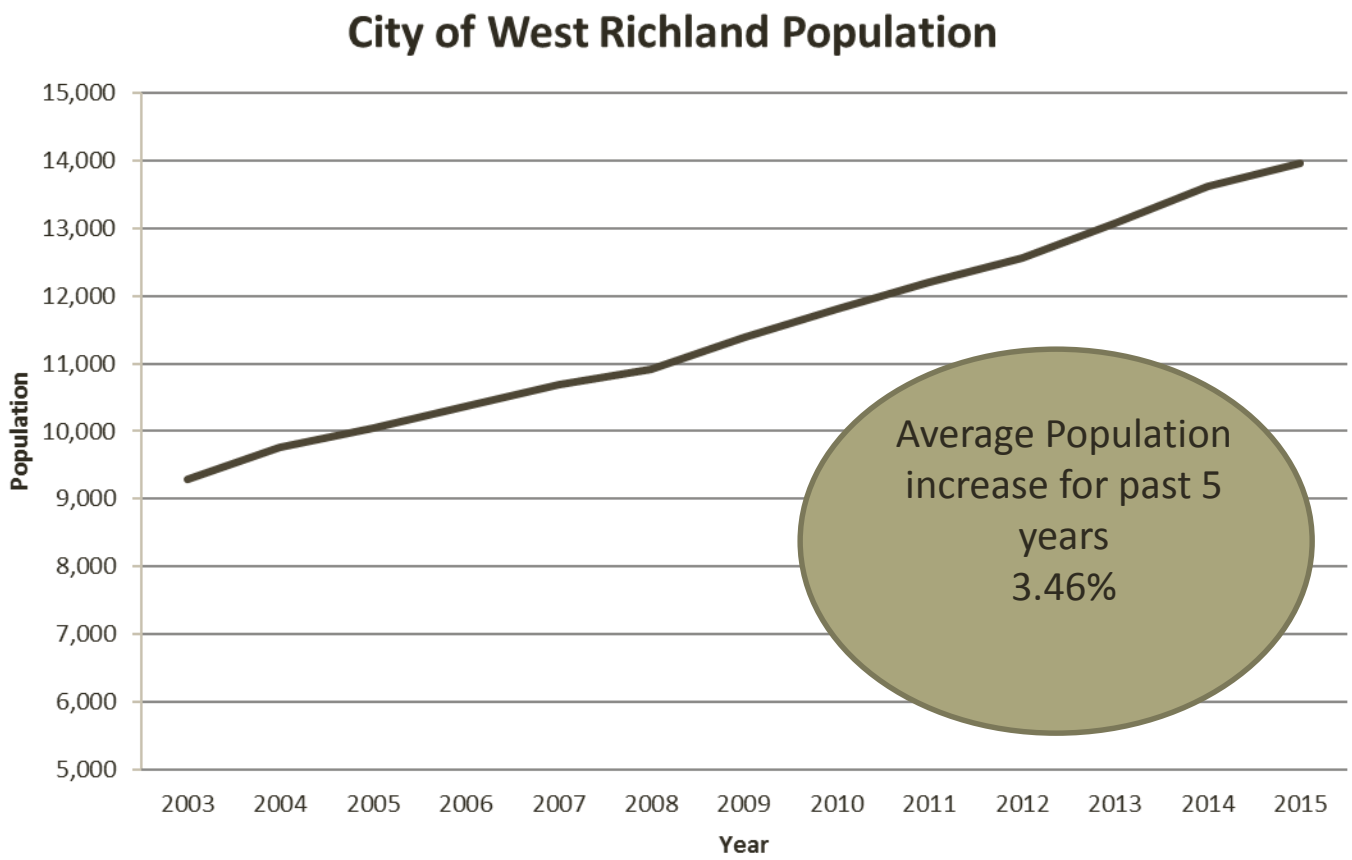
City of West Richland

Types of Funds

- **Fiduciary Funds**
  - Trust & Agency Funds
    - Assets held by a governmental entity in a trustee capacity or as an agent for individuals, private organizations, other governmental units &/or other funds.

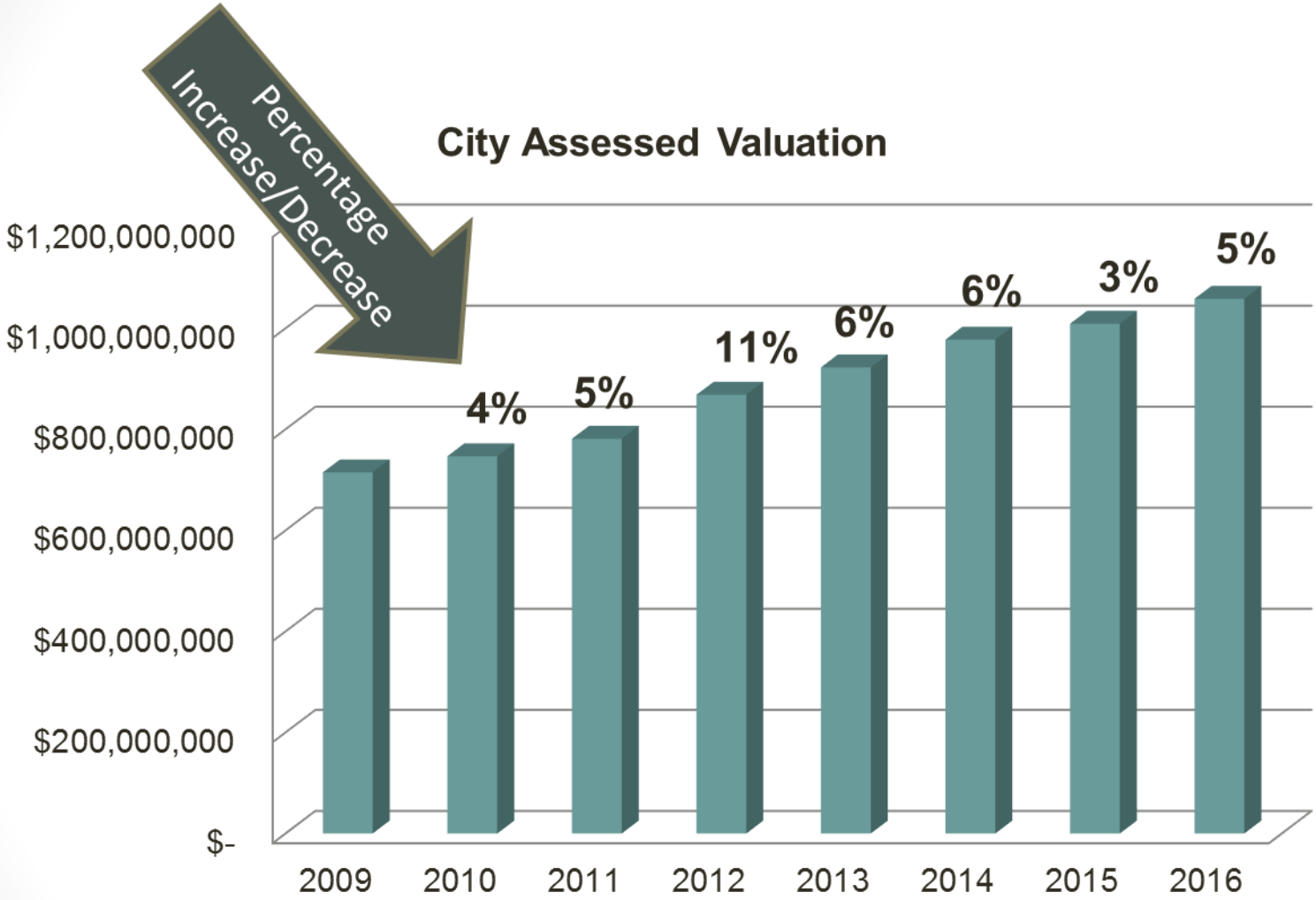
City of West Richland

Population



Current population 13,960

Assessed Value

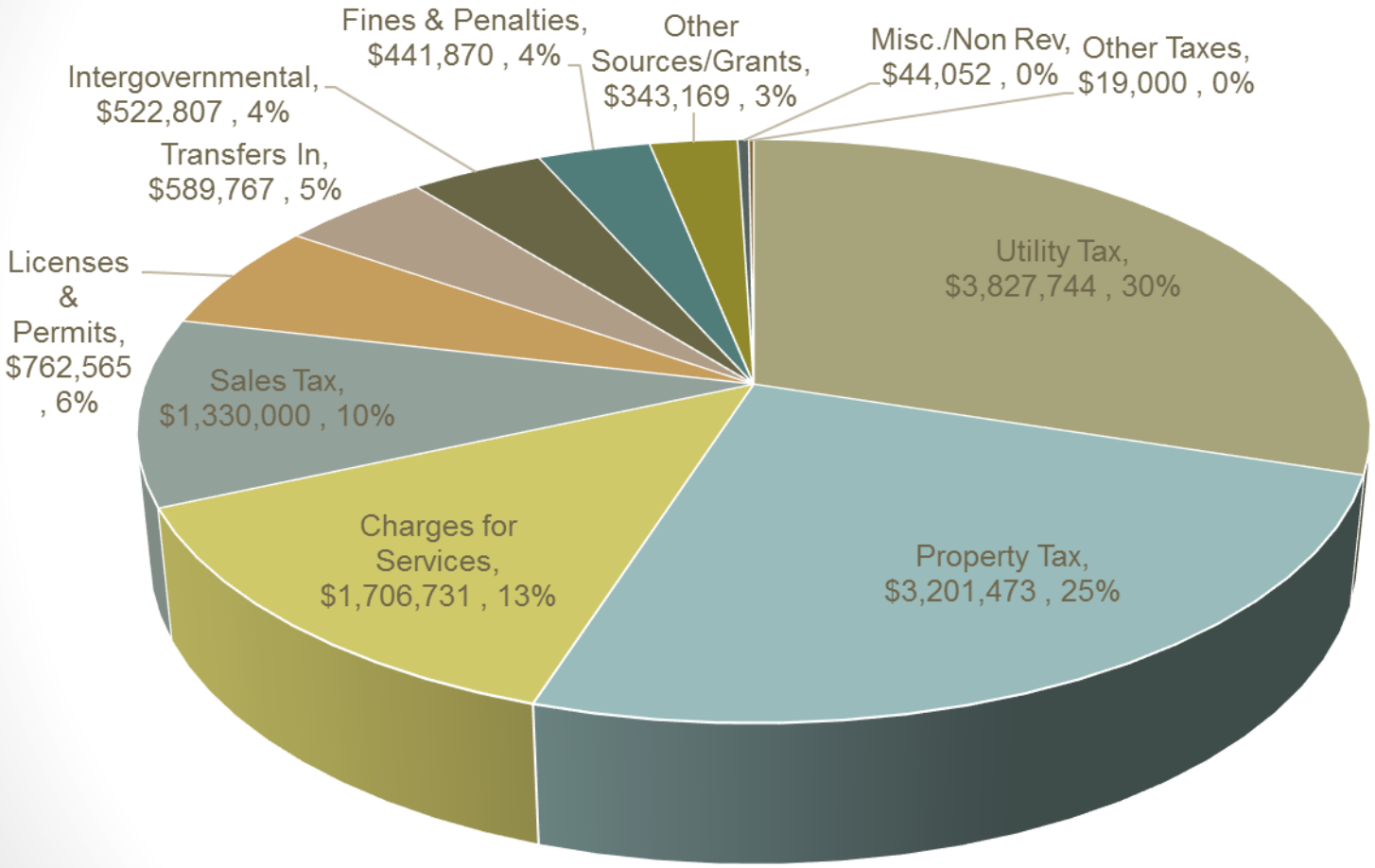


2016 Assessed Value = $1,058,288,029

City of West Richland

2015-2016 General Fund Revenue Budget

Where does the money come from?

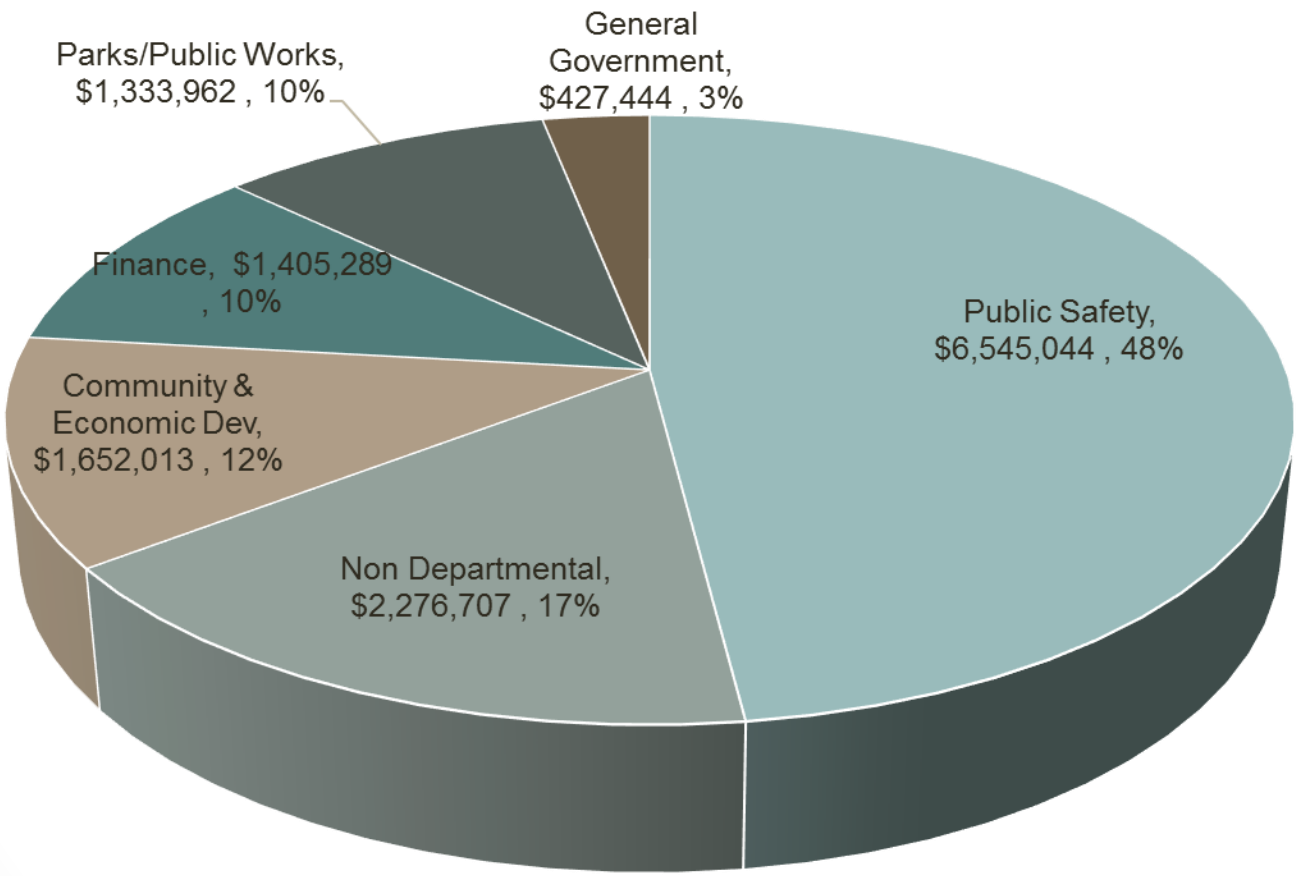


Note: Chart does not include fund balance

City of West Richland

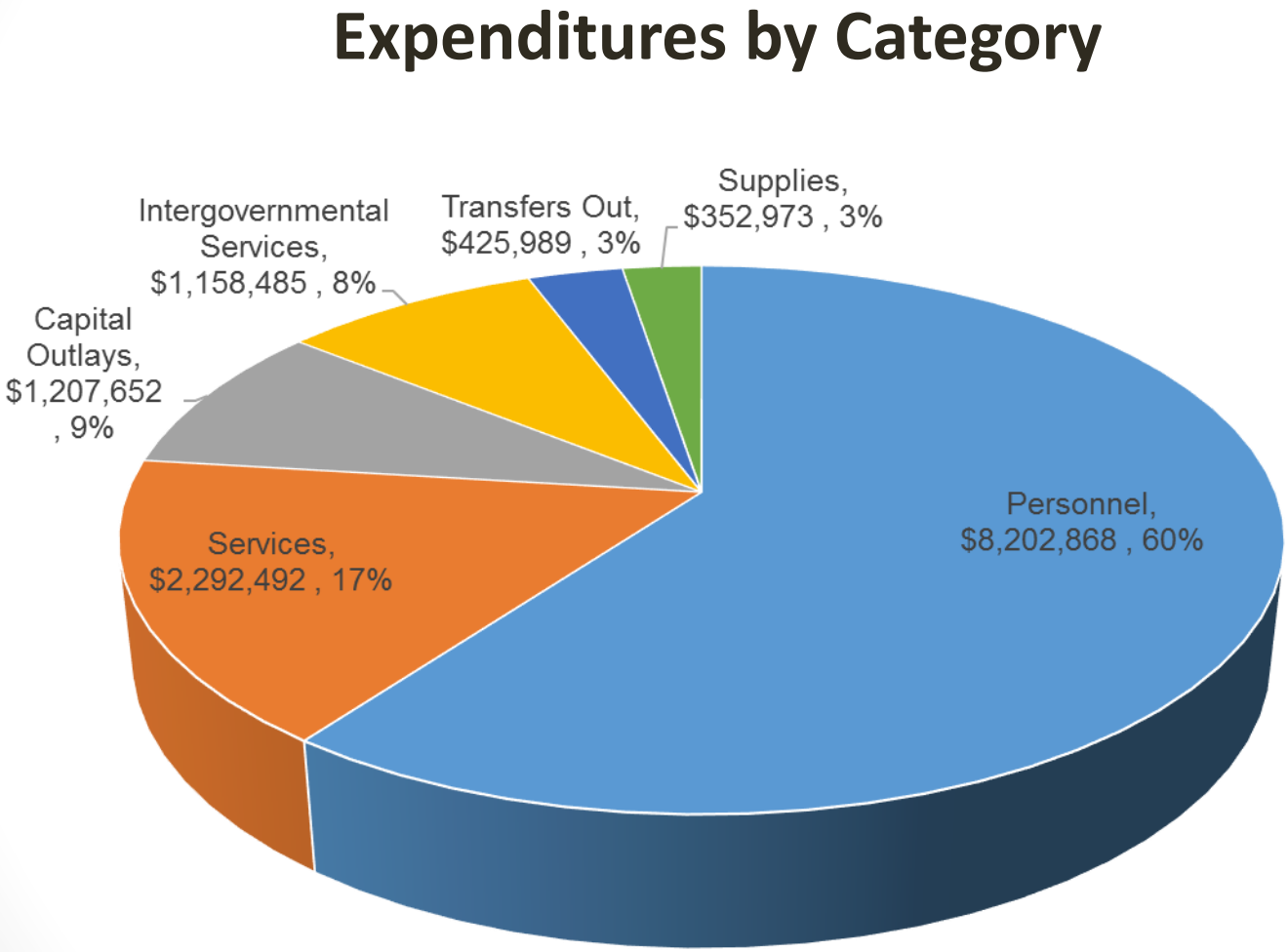
2015-2016 General Fund Expenditure Budget $13.6 Million

Where does the money go?



City of West Richland

2015-2016 General Fund Expenditure Budget

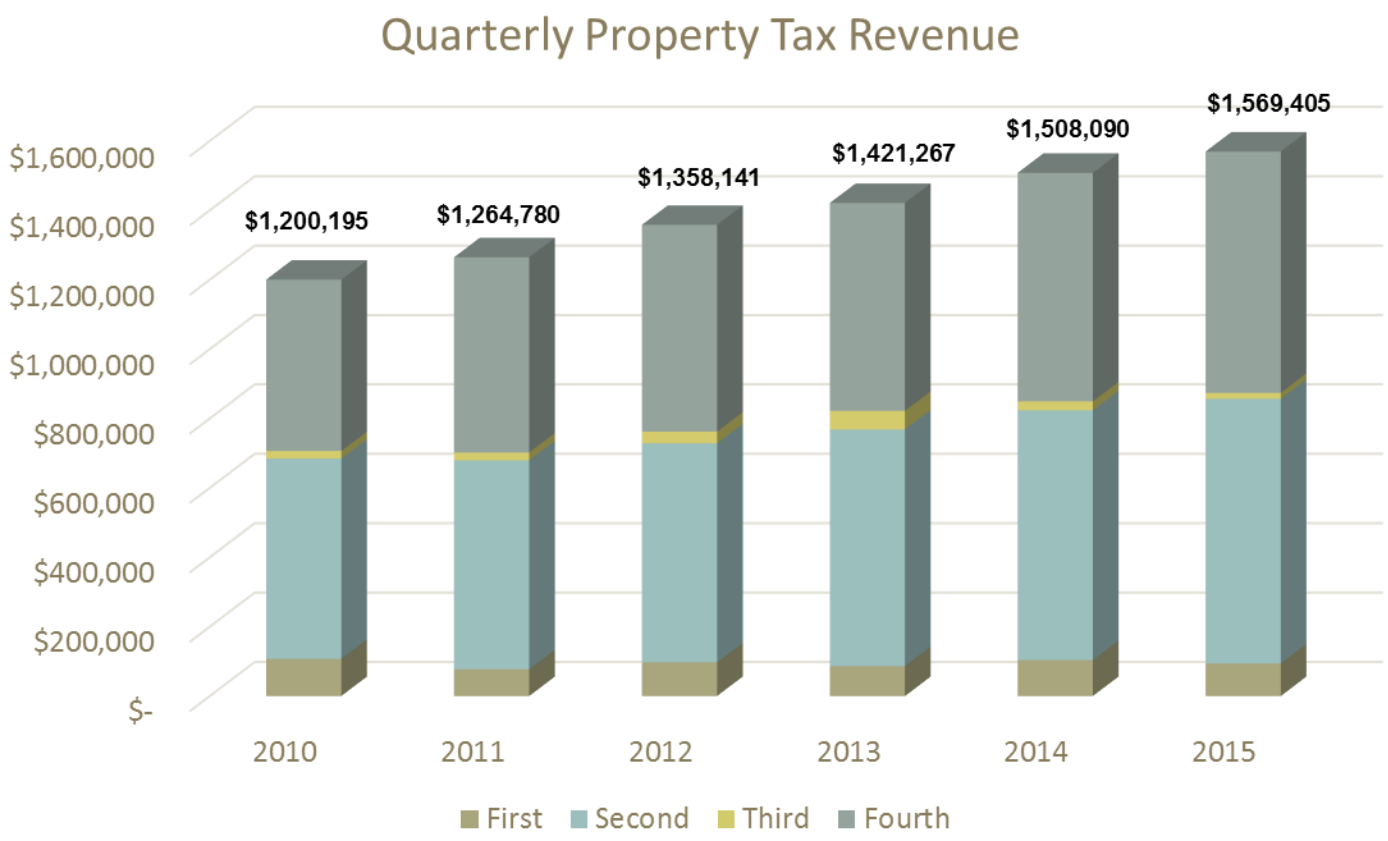


General Fund Revenue

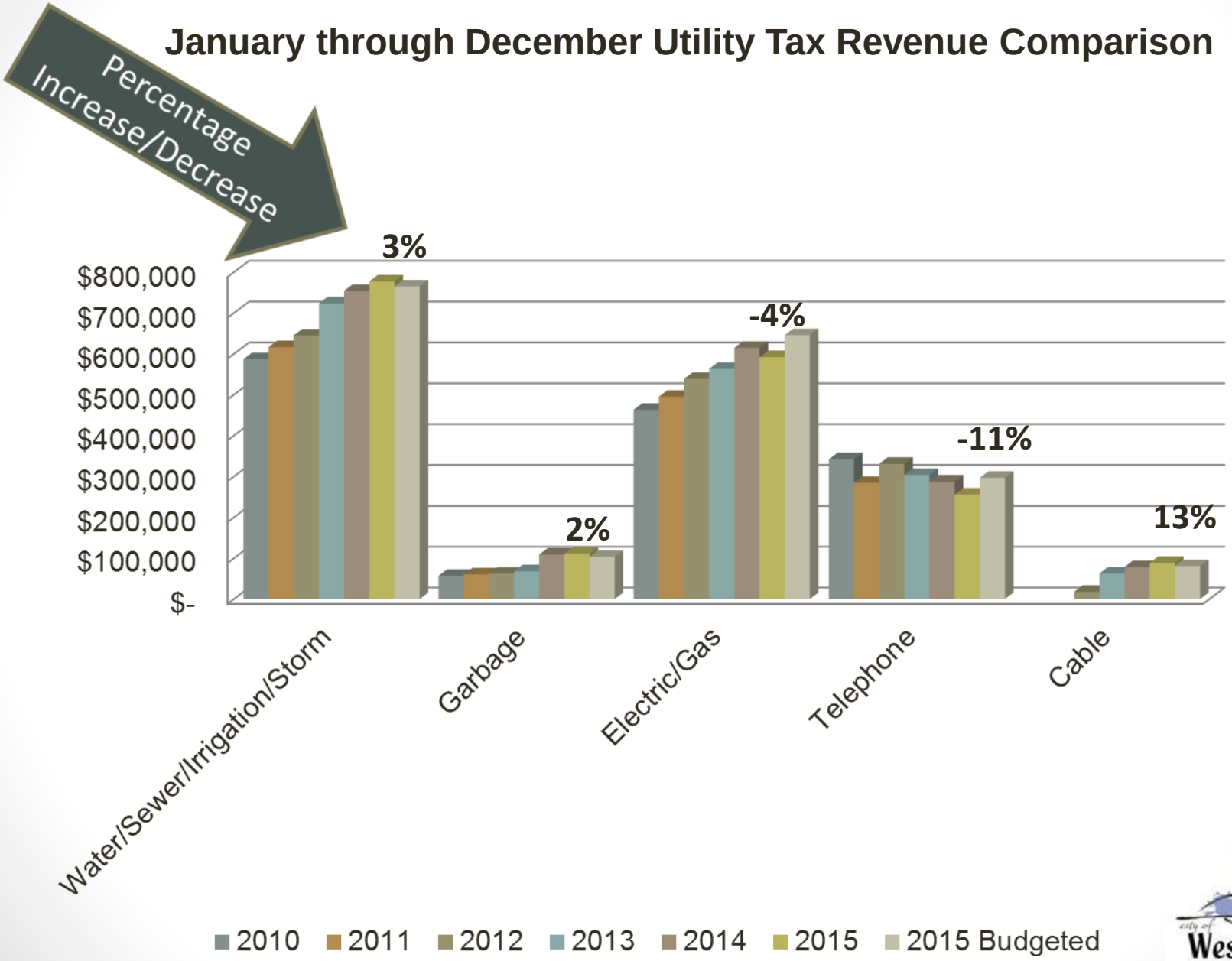
Where Your Property Tax Dollar Goes

City of West Richland

General Fund - Revenues



General Fund - Revenues



How is Sales Tax Distributed?

Did you know?

Only 0.85% of the total sales tax paid on every purchase is returned to the City.

Washington State
$32.50

Ben Franklin Transit
$3.00

Benton County
$1.25

Criminal Justice
$0.50

8.6% Sales Tax on this purchase would be $43.00

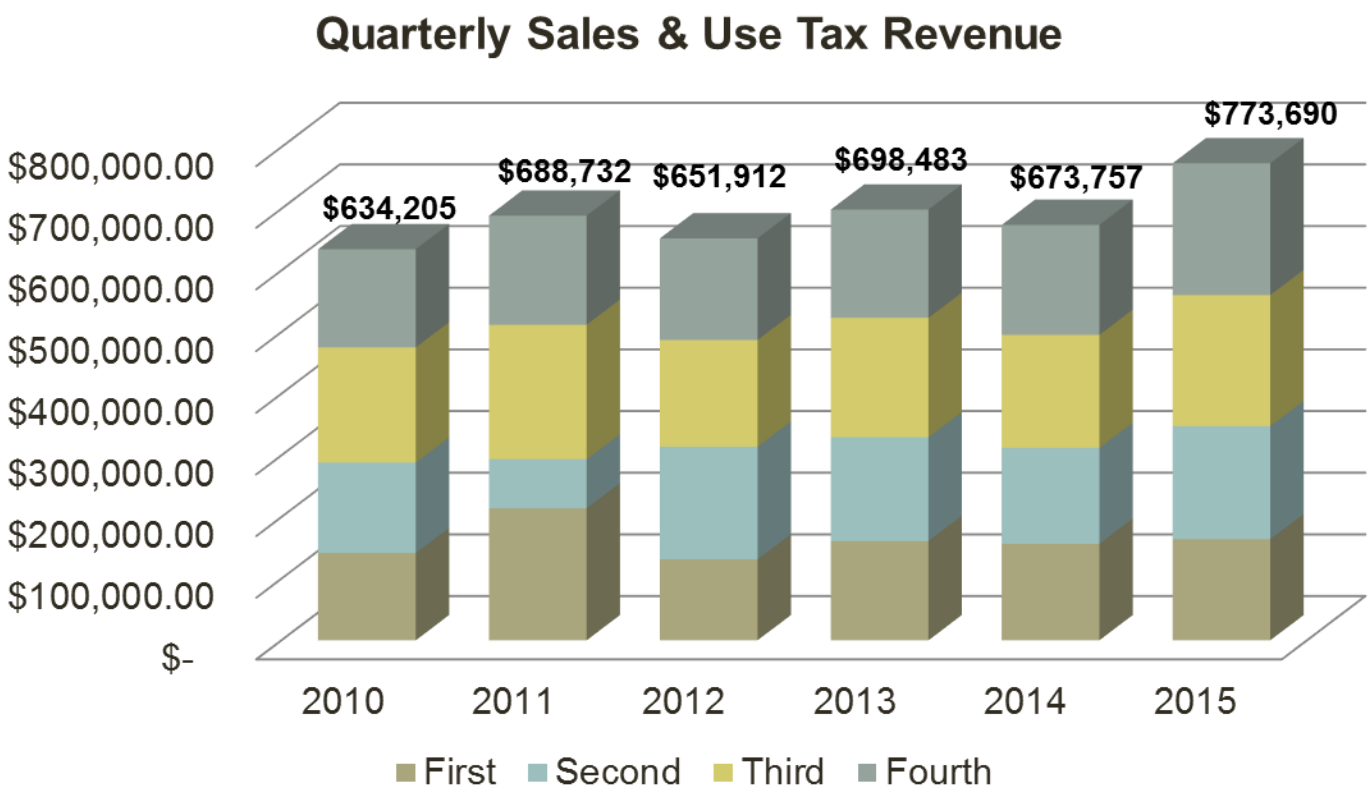
City of West Richland
$4.25

Public Safety
$1.50

Sales Tax Rate	
State	6.50%
City of West Richland	0.85%
Benton County	0.25%
Ben Franklin Transit	0.60%
Criminal Justice	0.10%
Public Safety	0.30%
Total Sales Tax Rate	**8.60%**

Appliance Delivery
Purchase Price $500

General Fund - Revenues



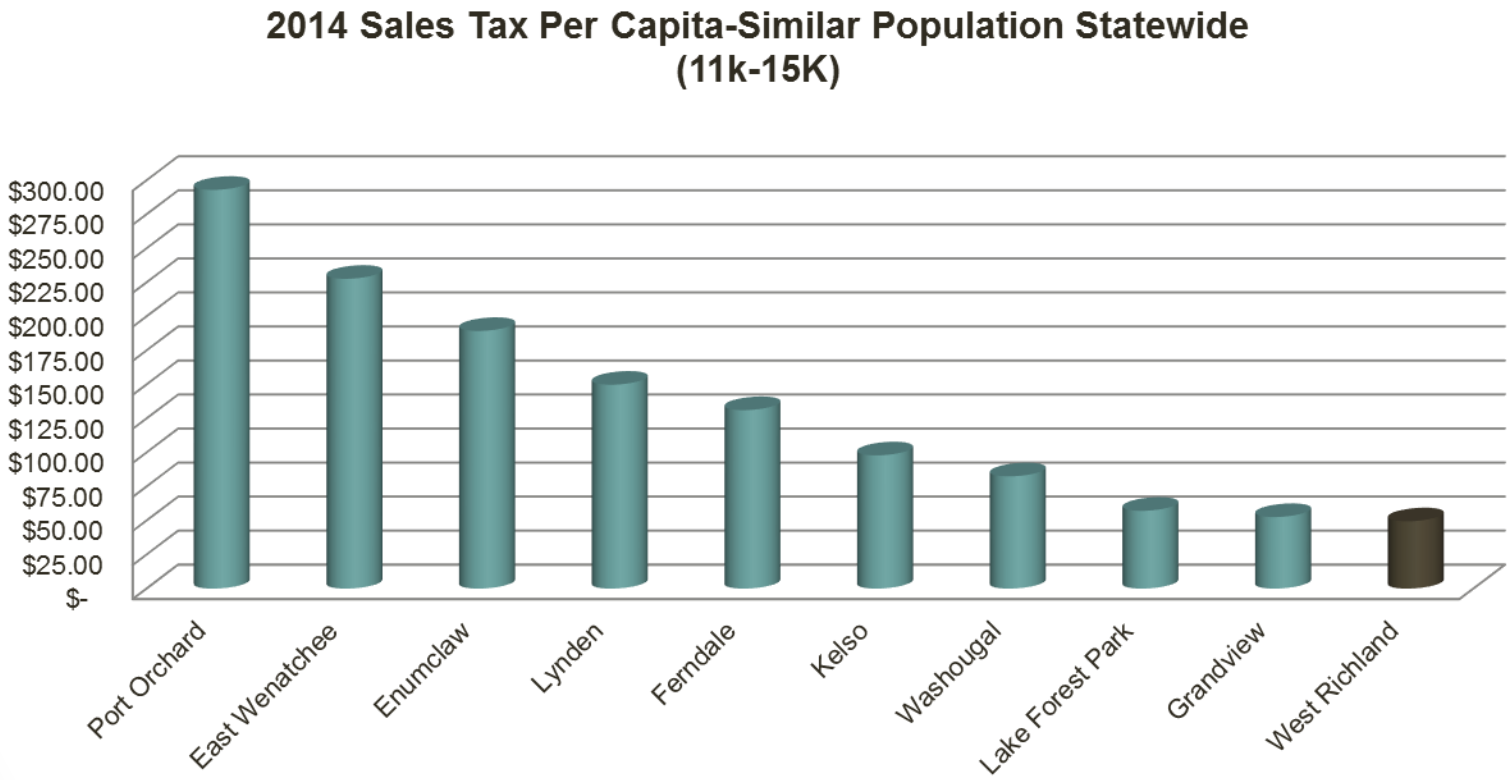
General Fund - Revenues

Retail Sales and Use Tax Collections by Sector

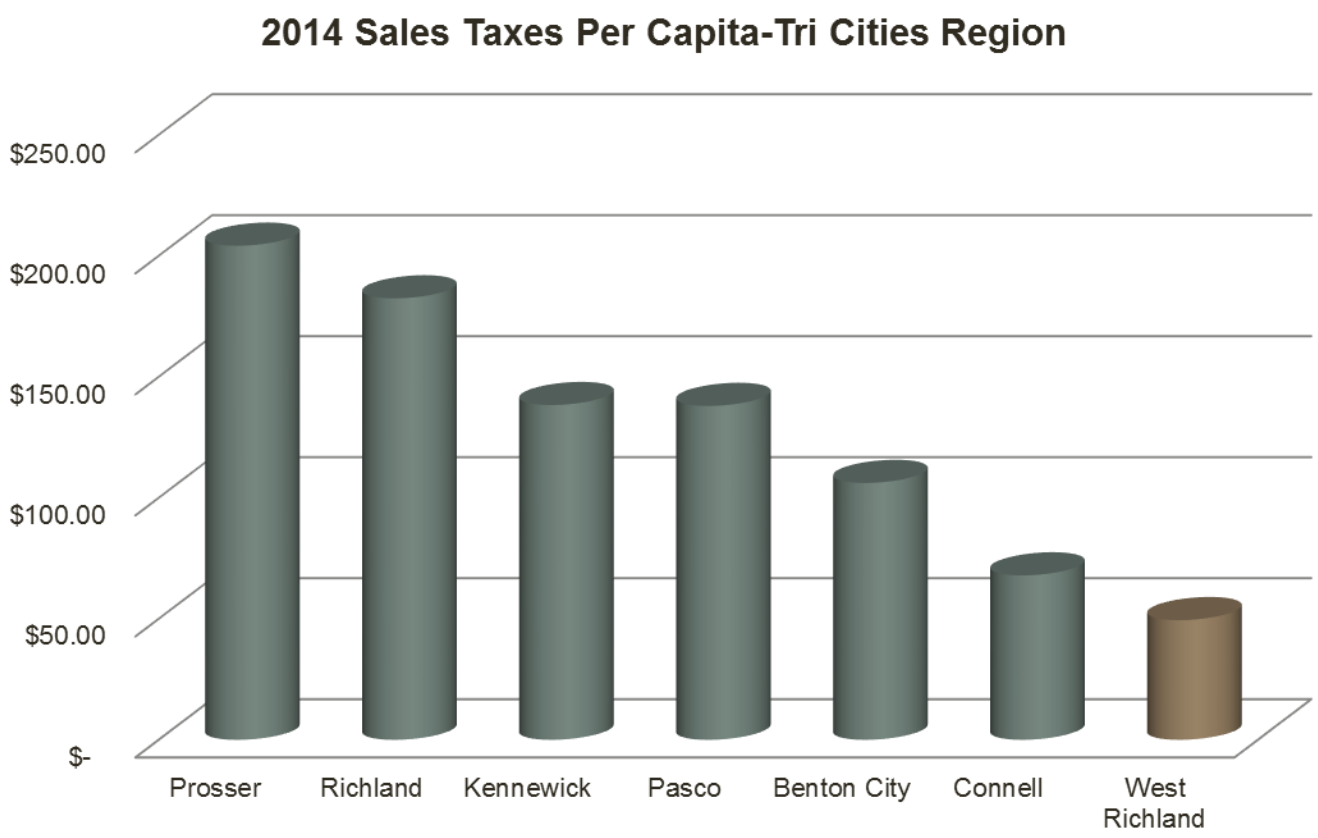
Business Sector	Revenue (Jan - Dec) 2015	Revenue (Jan - Dec) 2014	% Change	% of Total 2015	% of Total 2014
Construction	$200,137	$163,885	22%	26%	24%
Manufacturing	$24,038	$18,253	32%	3%	3%
Wholesale Trade	$54,401	$40,597	34%	7%	6%
Retail	$246,867	$212,862	16%	32%	32%
Telecommunications & Other Information Services	$57,088	$55,244	3%	7%	8%
Finance, Insurance, Real Estate, Administrative Support Services, & Public Administration	$104,417	$105,699	-1%	13%	16%
Accommodation and Food Services	$46,210	$42,020	10%	6%	6%
All Other Sectors	40,531.2	$35,198	15%	5%	5%
Total	**$773,690**	**$673,757**	**15%**	**100%**	**100%**

City of West Richland

General Fund - Revenues



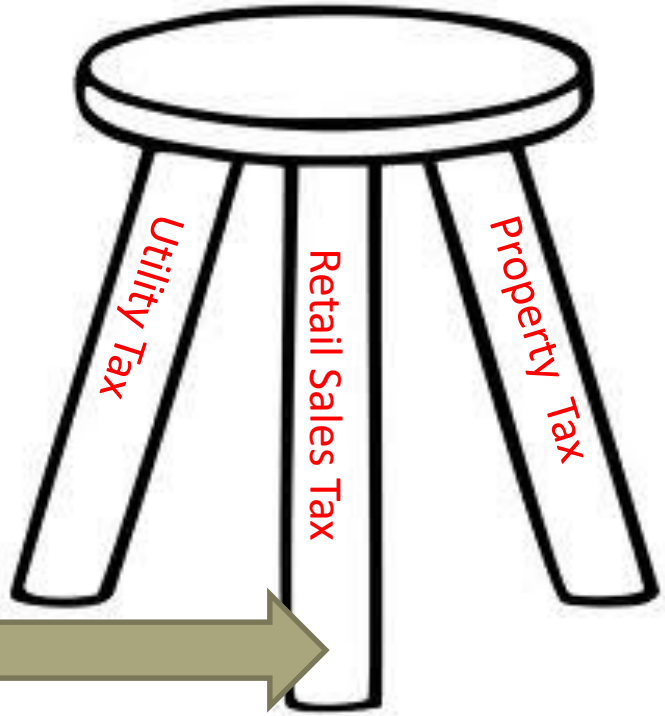
General Fund - Revenues



Why is it a challenge to balance the budget?

1. Lack of diversified revenue sources:
   - Heavy reliance on building revenues (extremely volatile)
   - Sales tax leakage (Queensgate)

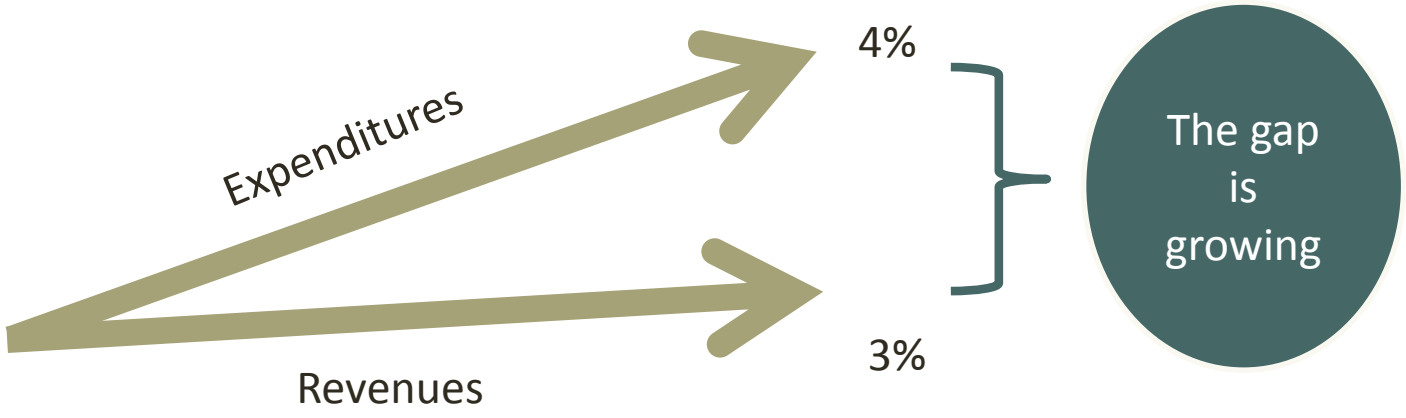
West Richland sales tax per capita is $49 compared to $153 area average (Richland, Kennewick, Pasco)



City of West Richland

Why is it a challenge to balance the budget?

2. Growing gap between revenues and cost of city services



Why is it a challenge to balance the budget?

3. Voter Initiatives (Ex: I-747 restricts city property tax levy increases to 1% annually)

City of West Richland

Why is it a challenge to balance the budget?

4. Federal/State Mandates (Ex: New financial reporting requirements added annually.)

5. Legislative Action (Ex: Reductions and elimination of state shared revenues.)

6. Economic Downturn

City of West Richland

Why is it a challenge to balance the budget?

7. Increase in Employee Costs
   - Medical (average 10% annual increase)
   - Labor & Industries (10% annual increase)
   - Public Employees' Retirement System (PERS) (current employer rate is 11.18% up from 9.21% in 2015)

City of West Richland

What has the City done to control costs?

Cost Control Measures Include

1. Increase employee cost sharing on medical premiums
2. Development of an employee Pay for Performance Plan for non-bargaining employees
3. Elimination of the City Administrator position
4. Grants and low interest loans
5. Deferring preventative maintenance
6. Delaying capital expenditures

City of West Richland

Information Regarding Annexation into a Library District

Information Regarding Library District Annexation

What is annexation?

- Annexation allows cities and towns to join a library district, rather than contract for services.
- Citizens are taxed directly for library services through a property tax levied by the district.
- By state law, the library tax levy is capped at 50 cents per $1,000 assessed value. MCL's levy rate is currently $0.37 per $1,000 assessed value. A home assessed at $250,000 would pay $93.04 in 2016.

Information Regarding Library District Annexation

- Any city or town with a population of 300,000 or less may become a part of any rural county library district ~ RCW 27.12.360.
- Annexation initiated by the adoption of a city council ordinance.
- Library board of trustees would need to issue a resolution consenting to the annexation.
- City officials would notify the WA State Librarian of the proposed ordinance and with their concurrence, transmit notification to the Benton County Commissioners.
- County Commissioners would by resolution call a special election to be held.
- Voter approval of annexation to a library district is by simple majority vote.

Information Regarding Library District Annexation

Benefits

- Annexation may provide a more secure funding source.
- Eliminates contract negotiation between the city and the library district.

Challenges

- An annexed city has little accountability leverage or control over the service model, only recourse is through the Library Board of Trustees.
- City surrenders levy capacity to the library district through annexation which limits the ability to raise revenues in the future for public services such as public safety, streets, and parks.

Information Regarding Library District Annexation

Property Tax and City Levy Capacity

How is the amount of property tax allocated to individuals?

- Taxes are levied on all taxable real and personal property (unless specifically exempted) located within the city.
- City has no control over how property taxes will be allocated to individual properties.
- Amount of property tax is allocated based on an individual's share of assessed valuation (AV).
- Assessed value is established by the Benton County Assessor's Office. AV can be affected by exemptions allowed by law. Tax levy rates are expressed per $1,000 of AV.

Information Regarding Library District Annexation

Property Tax and City Levy Capacity

- By law the maximum regular levy cannot exceed $3.60 per $1,000 of AV for all jurisdictions levying on property within West Richland. This limit is reduced by $1.50 to $2.10 because the City belongs to the Benton County Fire District #4.

Information Regarding Library District Annexation

Property Tax and City Levy Capacity

How is the City of West Richland's property tax calculated on an individual home?

÷ $1,000 × $1.55 = $387.08

$250,000 (Property's Assessed Value by Benton County)

Per Assessed Value

West Richland Levy Rate 2016

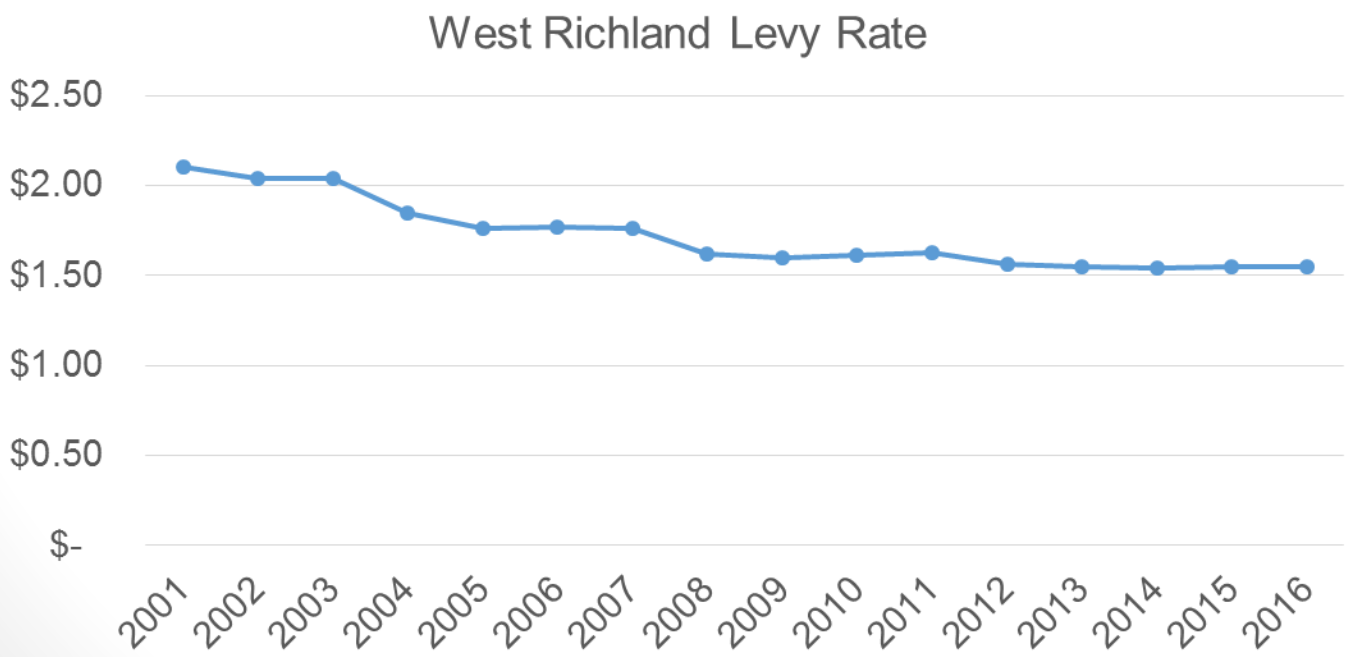
West Richland's portion of an individual's property tax bill.

Note: This example only includes the City's portion of an individual's property tax bill. Does not include, for example, School District, Fire District, County, etc.

Information Regarding Library District Annexation

Property Tax and City Levy Capacity

- Since I-747's one percent limit went into effect in 2002, the City's tax rate has dropped by 26%. The 2016 levy rate is $1.55 per $1,000 assessed value.



Information Regarding Library District Annexation

Property Tax and City Levy Capacity

Current		Levy Rate
Maximum Statutory Limit	$	3.60
Fire District	$	1.50
City Maximum with Levy Lid Lift	$	2.10
	Total $	**3.60**

With Library District Annexation		Levy Rate
Maximum Statutory Limit	$	3.60
Fire District	$	1.50
Library	$	0.50
City Maximum with Levy Lid Lift	$	1.60
	Total $	**3.60**

Information Regarding Library District Annexation

Property Tax and City Levy Capacity

Current		**Levy Rate**
Benton County Fire District #4	$	1.50
City of West Richland	$	1.55
Total Levy Rate for Fire and City	**$**	**3.05**
Maximum Statutory Limit	$	3.60
less current rates for Fire and City	$	3.05
Remaining Levy Capacity	**$**	**0.55**
Fiscal Difference from Statutory Limit	**$**	**583,816**

Information Regarding Library District Annexation

Property Tax and City Levy Capacity

With Library District Annexation		**Levy Rate**
Library District Maximum Statutory Limit	$	0.50
Benton County Fire District #4	$	1.50
City of West Richland	$	1.55
Total Levy	$	3.55
Maximum Statutory Limit	$	3.60
less Library District, Fire and City Levy Rates	$	3.55
Remaining City Levy Capacity	**$**	**0.05**
Fiscal Difference from Statutory Limit (includes Library District)	**$**	**54,672**
Fiscal amount surrendered to Library District	**$**	**529,144**

Information Regarding Library District Annexation

Property Tax and City Levy Capacity

Summary Regarding Property Tax and City Levy Capacity:

- The City of West Richland currently has $583,816 or $0.55 per $1,000 AV in maximum levy capacity. With voter approval, these funds can be used in the future for public services such as public safety, streets, and parks to maintain current service levels in the case of an economic downturn, continued reduction in state shared revenues, etc.

- Annexation into the library district significantly reduces the City's maximum levy capacity to $54,672 or $0.05 per $1,000.