

## City of Port Orchard Revenue Sources

### Property Tax

While remaining relatively stable for the past century, many changes to property tax law have occurred in the last few years. These laws are very complicated and difficult to understand and it is important to know how they affect our City taxes.

#### Limits ~

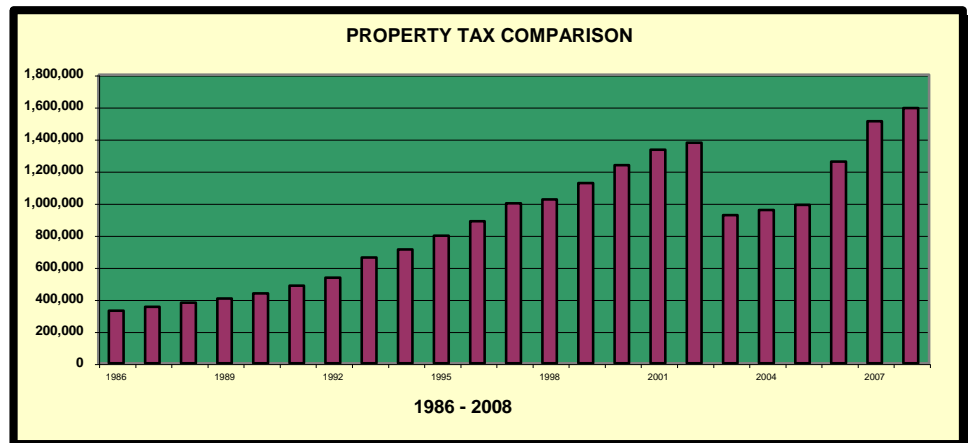
- ◆ The Constitution limits total regular property taxes to 1% of assessed values. (RCW 84.52.050)
- ◆ The Constitution permits voter approved "excess levies" to exceed the 1% limitation. These are typically school levies and voted general obligation bonds.
- ◆ Cities are limited to \$3.375 per \$1,000 of assessed value. (RCW 84.52.043[1])
- ◆ The maximum increase in annual property tax levies is limited to the Implicit Price Deflator (IPD) or 1% (whichever is less), over the highest amount levied since 1986(RCW 84.55.010).
- ◆ Cities that have not previously used all of their available property tax capacity can use it in future years. This is known as "banked capacity". At this time the City of Port Orchard does not have banked tax capacity.
- ◆ New construction or annexed areas are subject to the existing tax rate and not subject to the IPD or 1% tax limitations when first added to the City tax rolls.
- ◆ State law requires public hearings focusing on the overall financial need of property tax increases paying for services in the budget year.

#### Mechanics ~

- ◆ The County Assessor provides assessed values to the County Treasurer as the basis for the tax computation.
- ◆ All taxable property in Kitsap County is physically inspected at least once every six years. All valuations are subject to change on an annual basis if comparable sales indicate that the level of assessment in an area is either too high or too low.
- ◆ Each year one-sixth of the County is physically inspected. The City of Port Orchard will be inspected again in 2010 for taxes payable in 2011.
- ◆ With limits on the amount of taxes that can be collected, and no limits on the assessed values, the levy rate is adjusted accordingly. The Property Tax

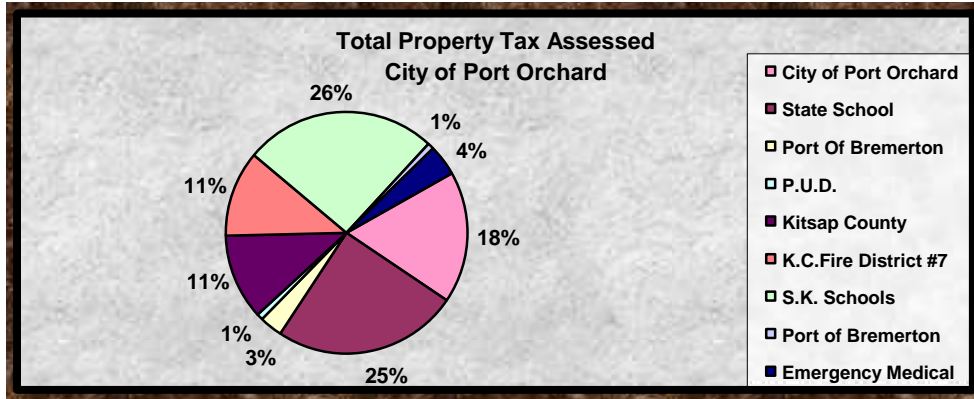
Comparison chart, to the right, depicts these yearly changes in revenues.

- ◆ In 2003 the City annexed to the Fire District reducing property taxes.

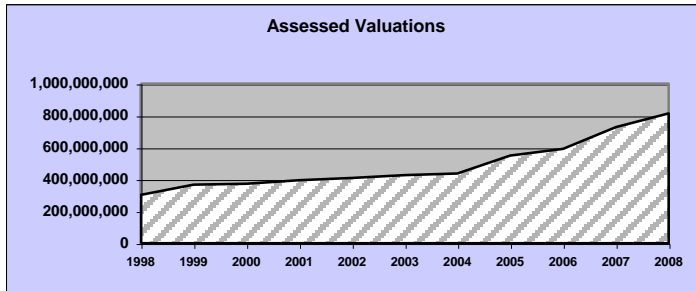


**Distribution of City Property Taxes**

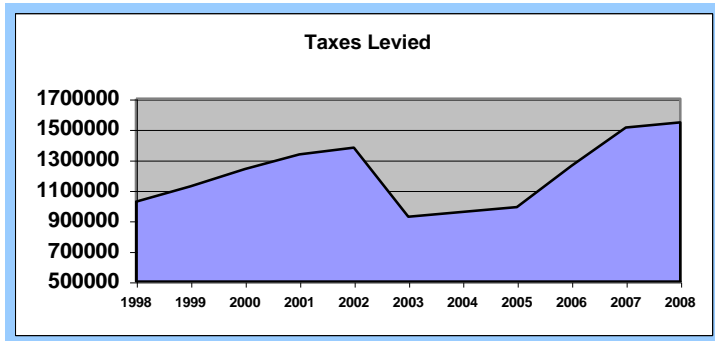
The City Council has utilized the maximum allowable tax rate assessed against City property.



The City tax rate has changed slightly over the past several years. Though assessed values continue to rise, the IDP limit of 1% greatly deflates actual revenues by comparison.



The assessed valuations over the past ten years indicates a steady increase overall, with substantial growth from 2004 to 2007. 2008 budgeted revenues expect a continued increase.

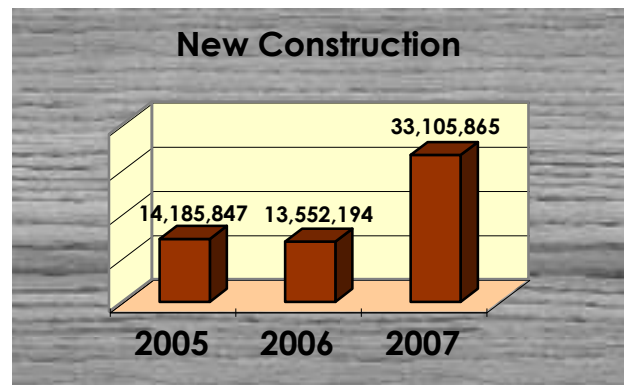


The actual taxes levied do not correlate due to the IDP 1% cap.

**New Construction ~**

An increase in new construction adds to the City's tax revenues since it is not subject to the 1% cap for the first year it enters the tax rolls and is assessed. These revenues are derived from residential and commercial

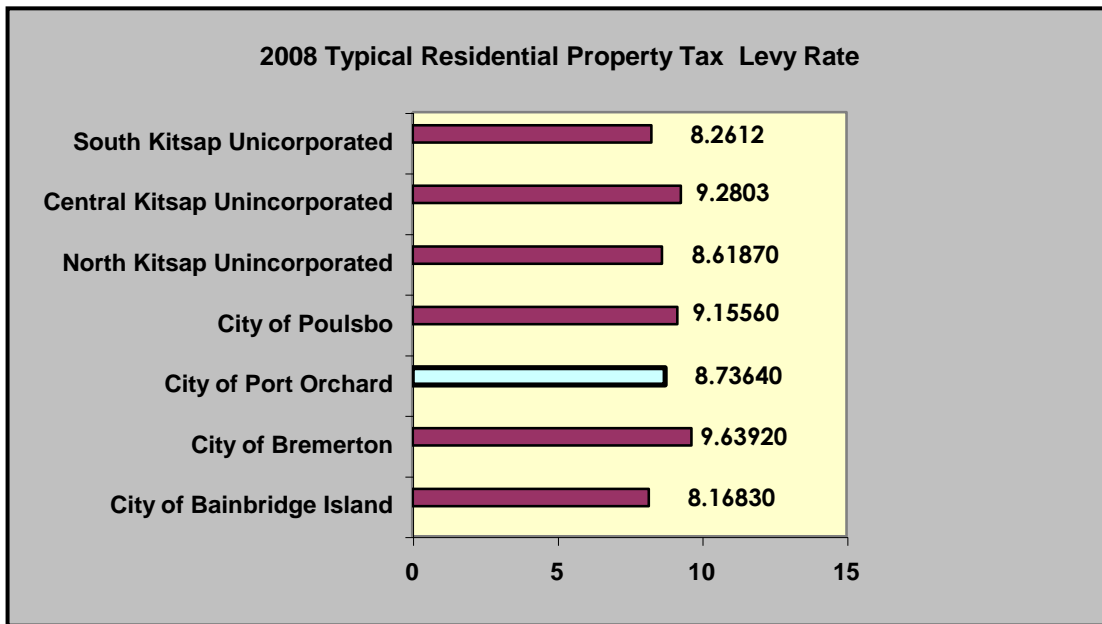
construction. Large commercial projects such as the new Lowes that was constructed in 2007 can significantly increase the annual revenue as indicated in the chart to the right.



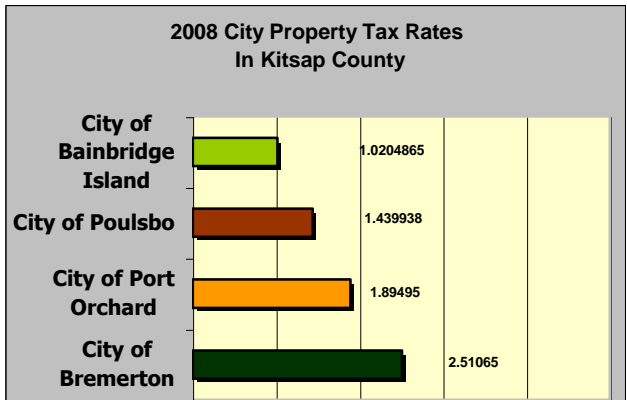
The City's tax dollars are distributed between the Current Expense Fund and Street Fund. Council determines actual distribution during the regular budget sessions.

<b>Property Taxes</b>	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Budget
Assessed Values	407,943,584	426,339,282	437,821,777	548,529,529	590,880,351	726,921,614	814,333,774
Levy Rate	3.3750	2.1670	2.1824	1.7994	2.1274	2.0768	1.9541
Total Tax Levy	1,376,810	923,856	955,502	987,024	1,257,039	1,509,671	1,591,290
General Fund	724,134	320,503	281,670	232,066	234,744	514,407	909,281
Street Fund	624,183	638,277	704,518	740,484	1,012,131	959,876	681,999
	1,348,317	958,780	986,188	972,550	1,246,875	1,474,283	1,591,280

A comparison of the total of Cities and Kitsap County levy rates are as follows:



Port Orchard's City tax rate is considerably less than that of its immediate neighbor City of Bremerton though a little higher than the City of Poulsbo and Bainbridge Island.



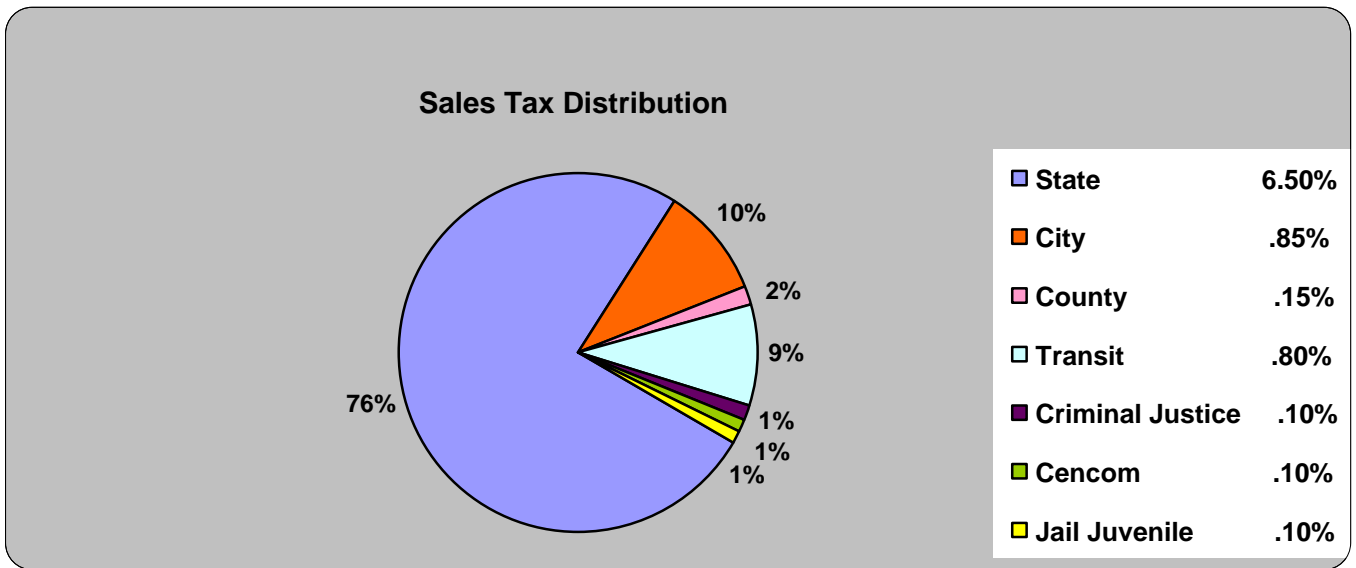
**~ Prospects For The Future ~**

When compared to other local Cities and unincorporated areas throughout Kitsap County, Port Orchard's tax levy remains relatively low. This along with steady growth provides an attractive choice for businesses and families to call home.

**Sales Tax**

Sales taxes are collected by the State and distributed to the City. The rate available to cities is made up of two components. The first component is .5% of which .15% is provided to the County resulting in a total amount for City general revenues of .85%. There is an additional .01% sales tax restricted to use in City criminal justice programs as well. Of that .01%, designated for criminal justice programs, only 2.5% of those funds are allocated to Port Orchard. Fund allocations are based on City population.

The overall tax rate in the City of Port Orchard is 8.6%. Therefore, the City of Port Orchard receives only 10% of the total sales tax collected. Below is a chart that details the Sales Tax Distribution



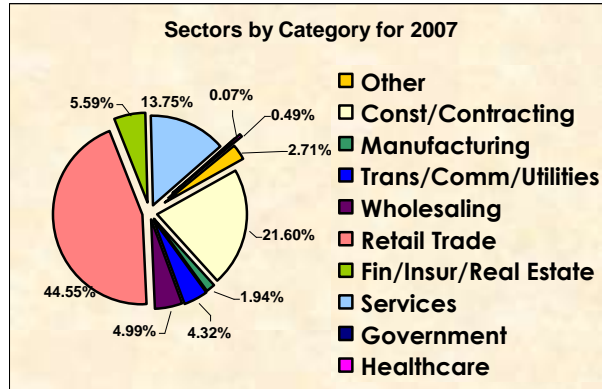
The retail sales tax is the most significant source of revenue to the City representing an average of 45% of all revenues in the Current Expense Fund for 2007. As a result, we study the retail sales tax base carefully. The City has experienced annual increases in sales since 2004. Though in today's declining economy those trends could change.

The table below shows the City's retail sales tax history and budget forecasts for 2008.

	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Budget 2008
Retail Sales Tax	2,374,492	2,700,435	2,712,428	2,921,739	3,085,000
Percent Change	10.60%	13.71%	.44%	7.71%	5.58%

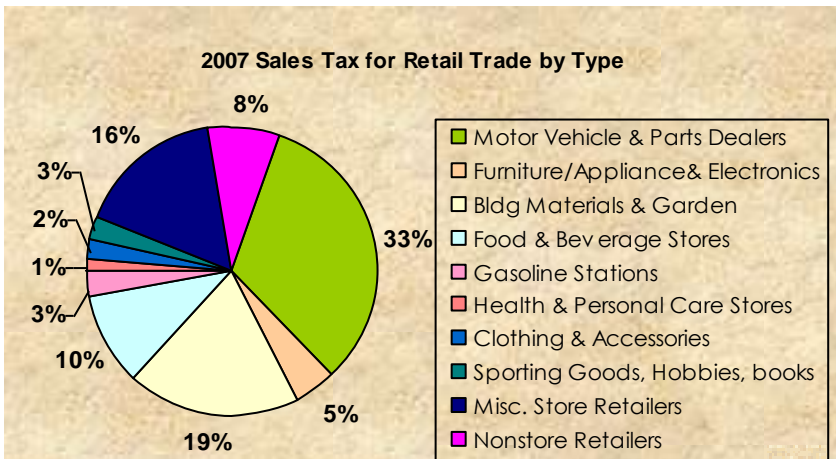
**Retail Sale Sectors**

The retail sector depicts current sale trends for Port Orchard. Increases in automobile sales and building materials /garden supplies have improved retail sales tax in 2007. Though some sectors declined slightly in 2006, retail trade remains the major contributor to the City's sales tax revenue.

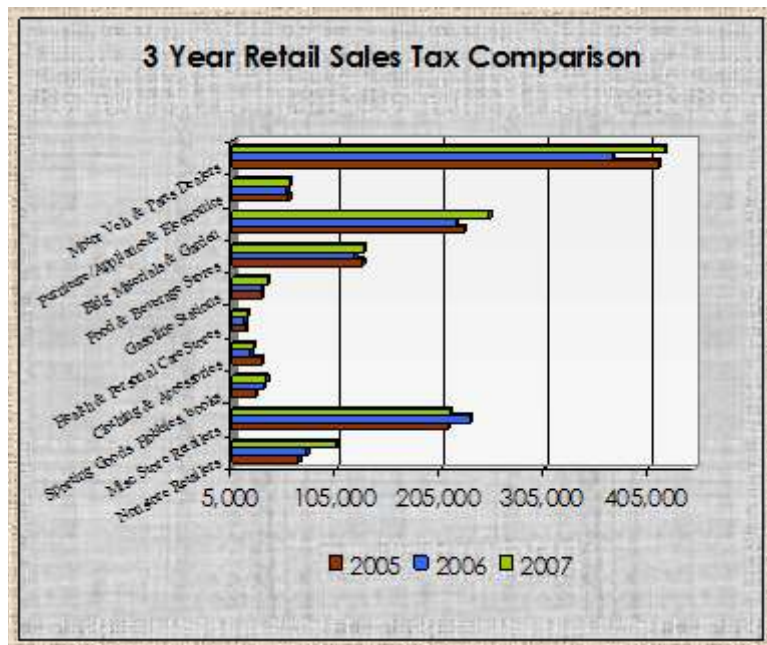


The graph below depicts the type of businesses that make up the largest reporting categories of retail trade. The Motor Vehicles/Parts Dealers category comprises

33% of the retail sales tax for 2007. Correlating to the continued increase in new construction, the retail building materials sector remains the second largest contributor at 19%. Groceries comprise about 10% of the total sales tax in 2007.



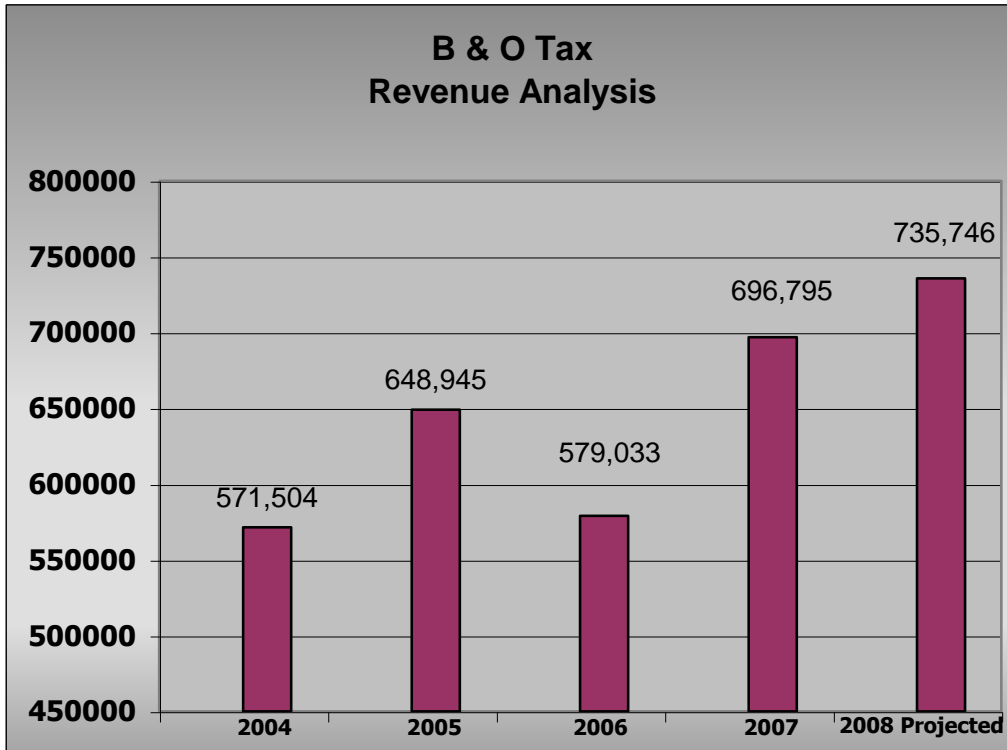
The graph to the right captures a comparison of the largest reporting categories for generating retail sales tax revenues in the City for the period of 2005 through 2007. Tax revenues from the sale of motor vehicles dropped by \$44,000 in 2006. However, 2007 revenues increased by over \$51,000 to bring Vehicle sales back with a slight increase over prior years. Building Materials /Garden supplies also declined a bit in 2006 but this category was on the rise again in 2007.



**Business And Occupations Tax (B &O)**

The City of Port Orchard does not levy a B&O Tax. State law permits a tax of up to .2% (RCW 35.21.710) on business activity with specific exceptions. Gross revenues reported on businesses quarterly tax returns are traditionally used as a basis for calculating the B&O levy.

Using retail sales data, the graph below shows the *approximate* historical and projected revenue that could be generated by levying this tax.



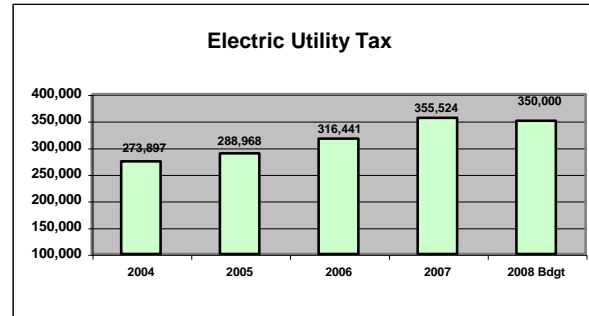
The B&O tax is unpopular with the business community, as it makes no provisions for the profitability of the business. State law specifically directs that the tax not be passed on to consumers (directly). As a result, the tax is only imposed in 39, out of 281, cities in Washington State.

**Utility Taxes**

State law enables cities to levy utility taxes on natural gas, telephone and electricity in an amount up to 6% of the total charges. The City of Port Orchard does impose utility taxes, but currently does not impose the maximum amount for all categories. A tax is also permitted on solid waste, water, sanitary sewer and storm water. No rate limitation exists on this second category of utilities.

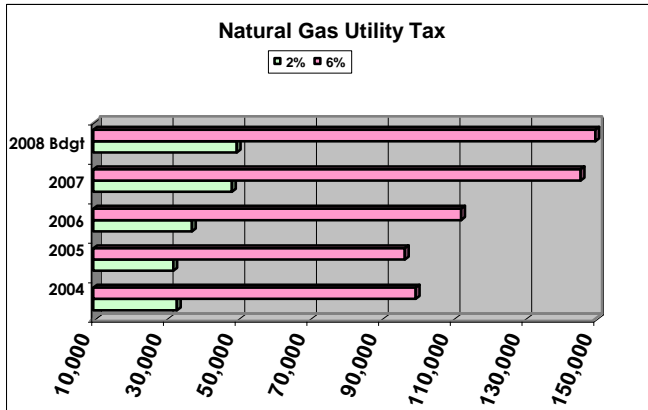
Electric ~

Port Orchard imposes the maximum allowable amount of 6% for electric utility tax. With an increase in electricity rates recently announced by Puget Sound Energy, the City is confident with its projections for 2008.



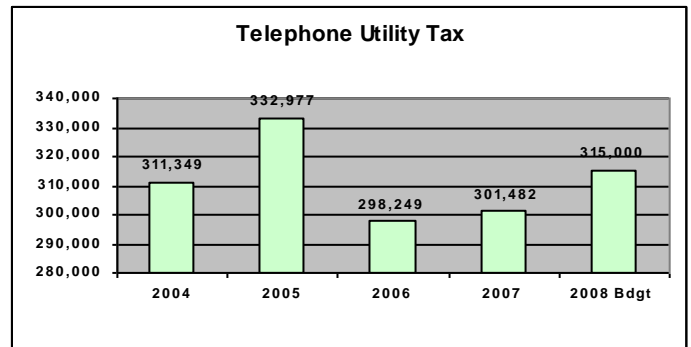
Natural Gas ~

Unlike electric utility tax, the City does not impose the maximum allowable rate for natural gas. Currently, the imposed rate is only 2% of the maximum allowable rate of 6%. If the tax were increased to the maximum allowable, based on the 2008 budgeted amount the City would generate additional revenues estimated at \$100,000. The graph shows the actual and projected revenue streams for this tax.



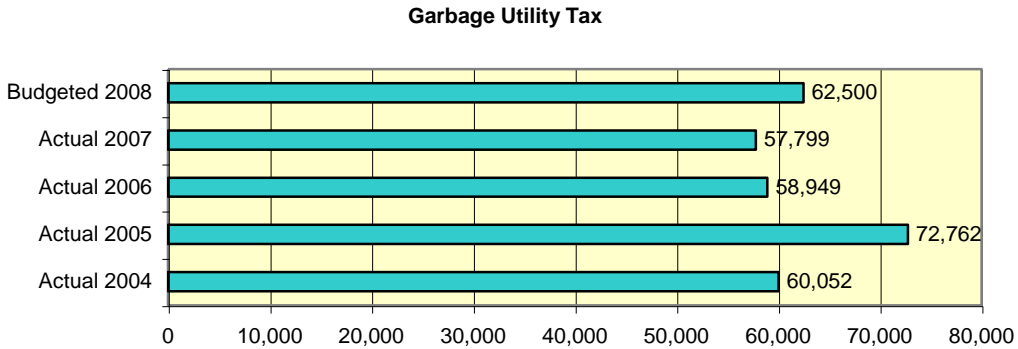
Telephone ~

An increase in cellular use has been a driving factor in telephone utility taxes. More households are using cellular phones in addition to home phones causing a rise in utility revenues. The City of Port Orchard imposes the maximum allowable tax of 6%.



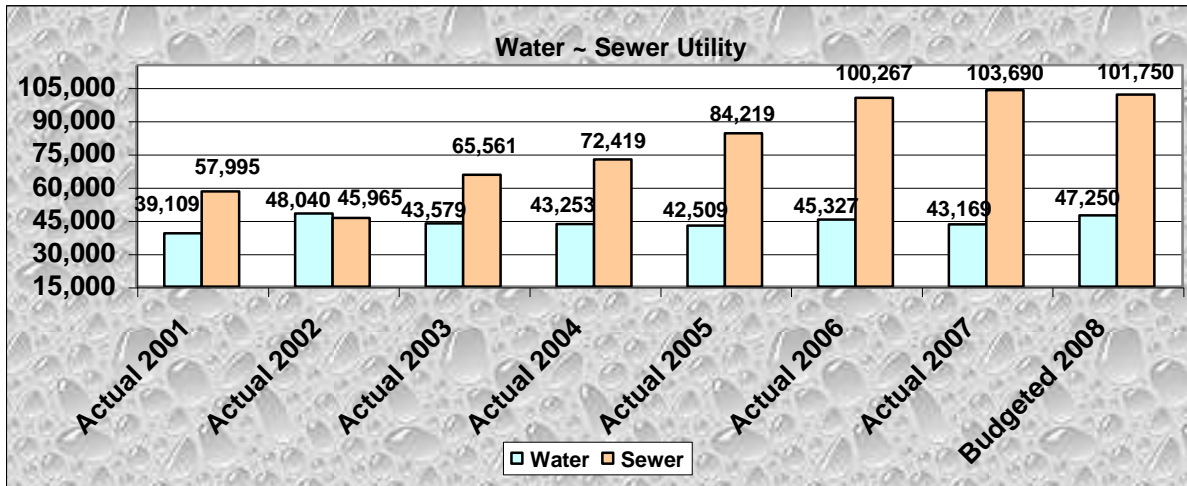
Garbage ~

Utility Tax for solid waste has remained comparatively steady for the past several years. The increase in 2005 was recycle revenue of approximately \$9,500. Projections for 2008 are approximately \$62,500. The imposed rate of tax has remained at 6% since 1975.



Water & Sewer ~

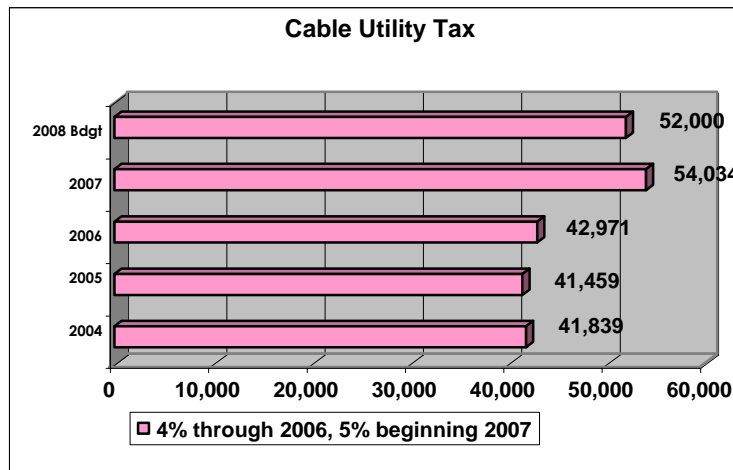
A utility tax for water and sewer has been imposed at the same rate of 5% since 1970. While water remains steady, with housing growth in McCormick Woods, increased demand from consumers, and increases in sewer rates, this utility tax has almost doubled.



Cable TV ~

Federal law permits a franchise tax on cable television of up to 5%. The City imposed a rate of 4% since 1989. Ordinance #016-06 increased the rate to the maximum allowed of 5%.

This will create an estimated increase in revenues of \$10,000 annually.



Leasehold Excise Tax ~

This tax is collected by the State on property that is in public ownership and therefore does not pay property tax. The State taxes these properties at a rate of 12.84%. Of this, Port Orchard is given 32% of revenues collected for publicly owned properties within City limits. Sales of public property have caused these tax source revenues to fluctuate.

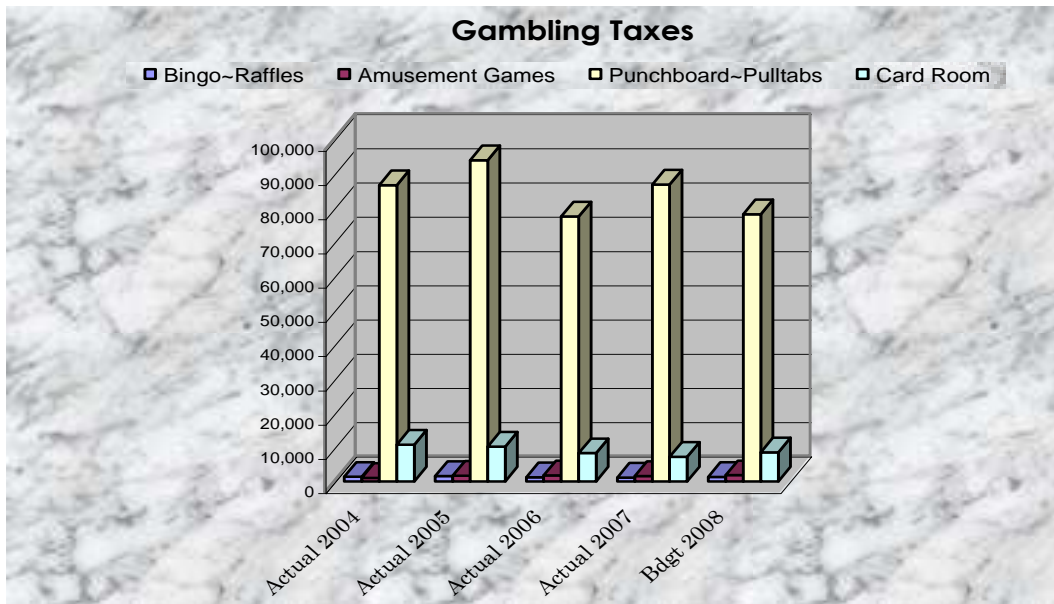
	Actual 2001	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Budgeted 2008
Leasehold Excise	27,671	27,118	-37,240	16,228	22,235	18,305	21,354	22,000
Percent Change		-2%	-173%	129%	27%	-21%	14%	3%

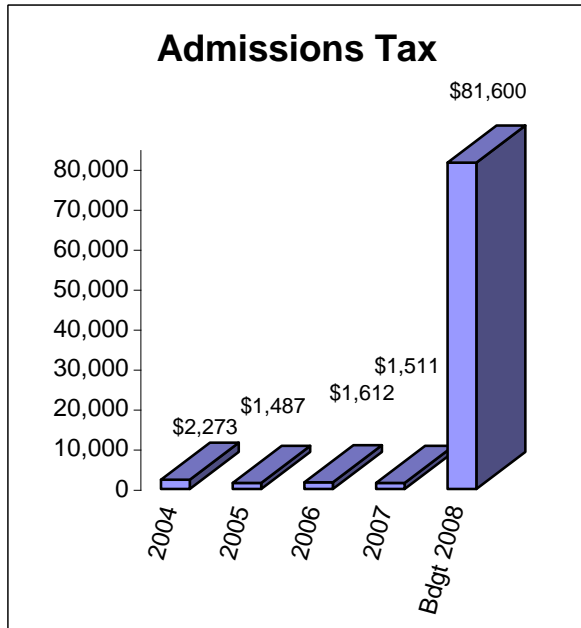
Gambling Tax ~

State law permits a variety of gambling taxes. With limitations on gambling in the City of Port Orchard, the collection of such taxes is also limited. Currently, the City does not impose the maximum rate allowed by the State in two out of the four sectors the City collects taxes on. If Port Orchard chooses to impose an increased tax rate, revenues could potentially increase within a single tax year by as much as \$13,000 in card game taxes and \$182,000 in the punchboard and pull tab taxes.

With limitations on gambling in the City of Port Orchard, the collection of such taxes is also limited. Currently, the City does not

	Maximum Rate	City Rate
Bingo ~ Raffles	5%	5%
Amusement Games	2%	2%
Punchboard ~ Pull Tabs	10%	3%
Card Room	20%	10%

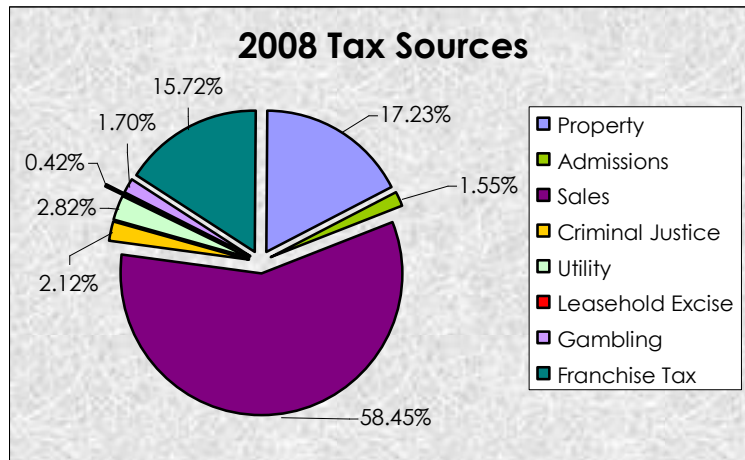




Admissions Tax ~  
 State law provides for a 5% tax on admissions. The City had historically imposed a one tenth of one percent tax (.1%) to be paid annually. Ordinance #039-07 increased the tax to the maximum allowed by the State (5%) beginning in 2008. The chart to the right indicates the projected increase in these revenues.

**Tax Summary**

In total, the taxes assessed for the City of Port Orchard for 2008 total more than \$5.2 million. The total estimated for additional taxing capacity is approximately \$1,031,000. As depicted below, sales, property, franchise and utility taxes currently make up approximately 94% of the tax revenue base.



**Other Revenues**

A variety of other revenues are part of the resources available to Port Orchard, these funds help to provide services to its citizens. They include:

Licenses and Permits ~

- ◆ Business Licenses – In 2002, the City began charging an annual license fee in the amount of \$30. This generates approximately \$55,000 in revenue annually. When compared to other local cities, Port Orchard's fee remains relatively low in Kitsap County.

	City of Bainbridge Island	City of Bremerton	City of Gig Harbor	City of Port Orchard	City of Poulsbo
<b>Annual License Fee</b>	50.00	65.00	20.00	30.00	50.00

In 2007, 1847 Business Licenses were issued to parties wishing to conduct business within our City limits. By increasing the Business License Fee to rates comparable with other cities in Kitsap County, Port Orchard could generate an additional projected amount of \$36,940 annually.

The table below illustrates license fee increases at \$5 increments and the revenue these would bring to the City.

<b>License Fee</b>	30.00	35.00	40.00	45.00	50.00
<b>Projected Revenue</b>	<b>55,410.00</b>	<b>64,645.00</b>	<b>73,880.00</b>	<b>83,115.00</b>	<b>92,350.00</b>

- ◆ Building, Structure & Equipment – This category that had been increasing steadily, experienced a slight decline in revenues for 2007 as evidenced by the chart to the left.



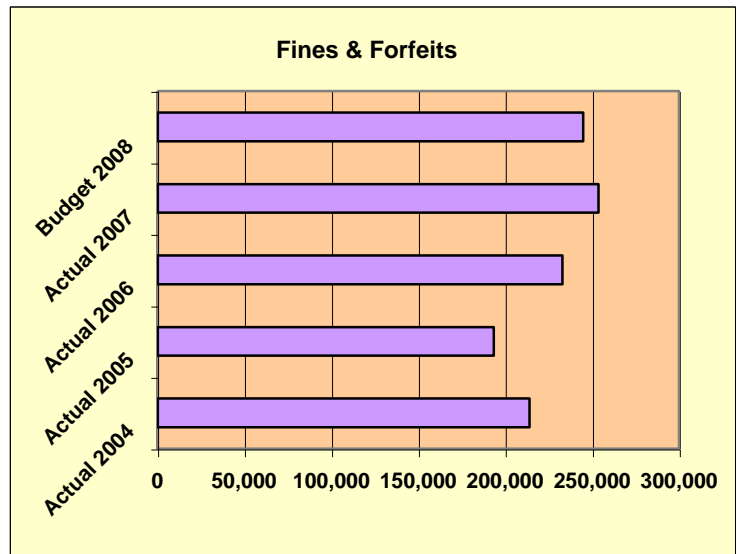
Intergovernmental ~

- ◆ State Shared Revenues – This revenue has increased overall by 14% since 2005. With Liquor Excise/Board Profits showing a 9% increase. Vessel Registration a 6% increase, and Criminal Justice funding increased by 9%. Motor Vehicle Fuel Tax for Street & Arterial Street increased by 17%

- ◆ Grants – Annual revenues for the Bulletproof Vests Grants have steadily increased. The Police Department has applied for and been awarded many Washington Traffic Safety Commission Grants. Funding varies depending on the grant. The City also has grants with the Federal Highway Administration through WSDOT. The annual dollars received for these multiyear projects depend on the expenditures within eligible totals the City submits for reimbursement. The City currently has a grant with FEMA to repair the large Sinkhole on Bethel Avenue that was caused by heavy rainfall during the storm of December 2007.

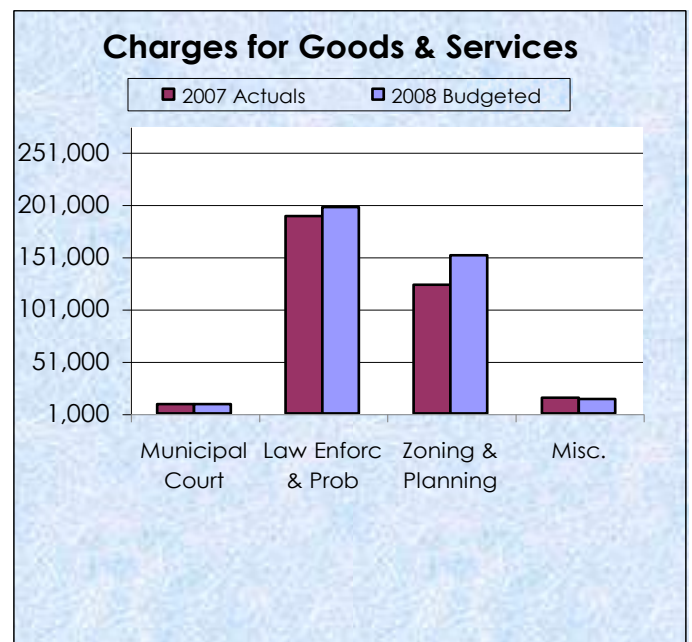
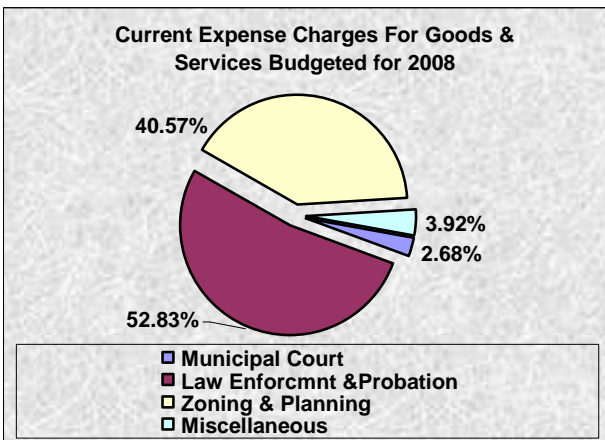
Fines & Forfeits ~

- ◆ Fines assessed by the City include traffic and non-traffic citations, parking violations, and misdemeanor fines assessed by State law through the court system. The Municipal Court collects almost all of these revenues.



Charges For Goods & Services ~

- ◆ Charges For Services - Law enforcement and adult probation make up the majority of revenue in this category accounting for 53% of revenue.



- ◆ Plan Checking Fees - With the fluctuation in permit applications from year to year, plan-checking fees will vary depending on City growth. The fee is based on 65% of the permit application fee, and even though residential growth has remained steady, large construction projects/permits fluctuate from year to year.

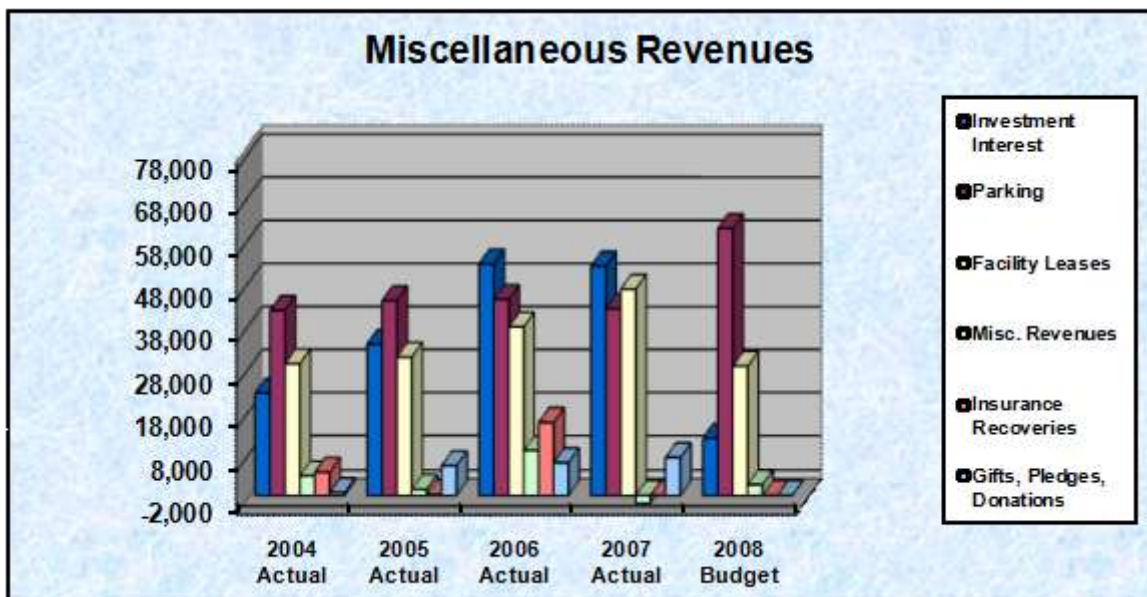


In recent years Zoning & Planning has shown significant increases in revenues. From 13% of Charges & Services budgeted in 2005 to 40.57% budgeted for 2008.

Miscellaneous Revenues ~

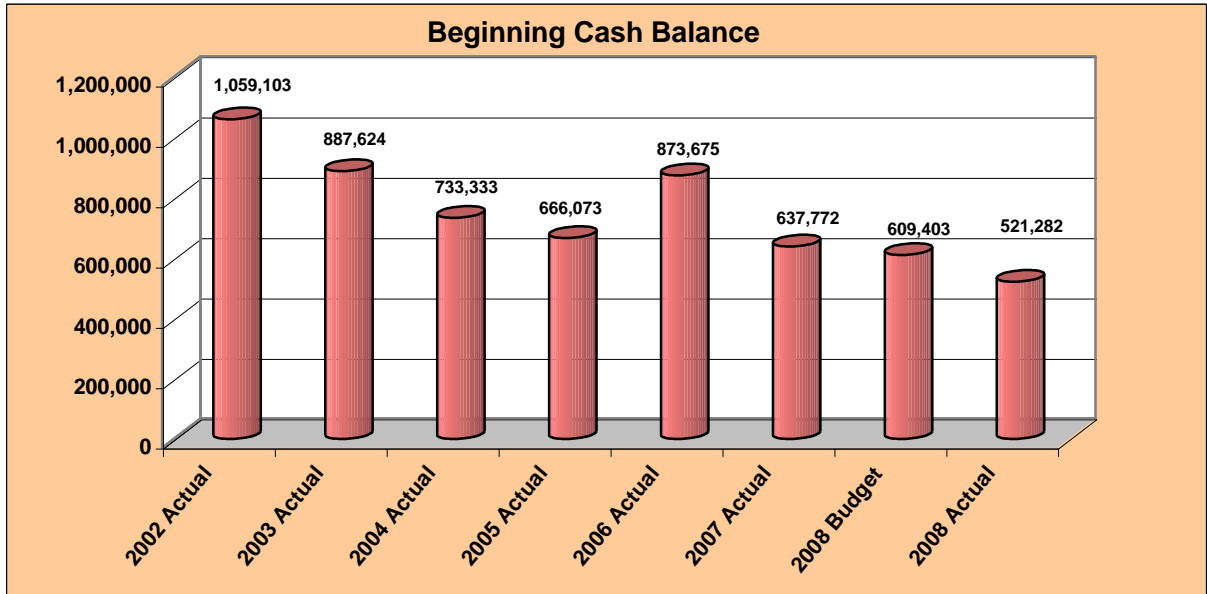
These revenues are primarily made up of three revenue sources: Interest Earnings, Parking fees & Short and Long Term Facility Leases, in addition to other small revenue sources.

- ◆ In 2004/2005 interest rates were 2 – 3%. In 2006/2007 they were in the 5% range. In 2008 there is a downward trend.
- ◆ The paid parking lots are being filled to capacity and sustaining revenue. Currently the rate is \$3.00 for 12hrs.
- ◆ Short and long-term facility leases consist of Key Bank, Bay Ford and the Kitsap Transit accrual. A recent addition is the rent from 213/215 Prospect Street, which was purchased in January 2008.



Other Financing Sources ~

The category of Beginning Cash Balance in the Current Expense Fund has continued a steady decline over the last several years.



Balances in Designated Unreserved Parks and Designated Unreserved City Hall are at \$62K & \$43K respectively. A Transfer-In of \$143,000 is also in the budget for 2008 to finance the new Police Firing Range Project if the Council determines to do so.

Special Revenue Funds ~

Hotel Motel Taxes - A 4% tax "rebated" from the state tax on "temporary lodging". State law restricts its use to tourism. The City has seen a steady increase through 2007. Previous recipients of this tax have been:

- ◆ Visitor and Convention Bureau
- ◆ Chamber of Commerce
- ◆ Fathoms of Fun
- ◆ Sidney Museum
- ◆ Kitsap County Parks & Recreation – Concerts By The Bay
- ◆ Port Orchard Parks Restrooms
- ◆ KP Sports Council
- ◆ Saints Car Club
- ◆ Port of Bremerton
- ◆ Bay St Merchants Assoc.
- ◆ Port Orchard Chimes and Lights Festival
- ◆ Port Orchard Farmer's Market

	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Budget
Hotel/Motel Tax	89,775	94,255	100,590	96,395	98,000
Investment Interest	352	931	2,061	2,547	2,000
Beginning Cash Balance	20,739	14,832	14,634	24,791	30,000
<b>Total</b>	<b>110,866</b>	<b>110,018</b>	<b>117,285</b>	<b>123,733</b>	<b>130,000</b>

Drug Enforcement/Criminal Justice - The majority of these funds are derived from the sale of confiscated and/or forfeited property seized by the Police Department. Monies paid into the fund are to be used by the police department for drug enforcement purposes and the City's K-9 Unit.

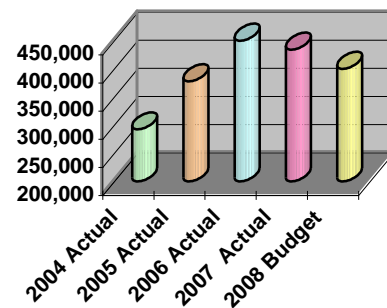
	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Budget
Investigative Fund Assessment	3,212	2,448	4,307	8,138	6,000
Investment Interest	292	652	877	1,437	2,000
Gifts & Pledges from Other Sources	-	8,472	550	100	-
Confiscated and Forfeited Property	4,804	3,020	7,528	2,873	4,000
Proceeds from Sale of Capital Assets	1,810	-	-	-	-
Beginning Cash Balance	27,797	15,935	16,049	23,640	30,000
<b>Total</b>	<b>37,915</b>	<b>30,527</b>	<b>29,311</b>	<b>36,188</b>	<b>42,000</b>

Gas Tax – When some of the restrictions on Gas Tax were lifted, the Council directed staff to continue placing 32% of the tax in Arterial Street for specified purposes. Projects funded need to be reflected on the six-year transportation improvement program as passed annually by Council.

Capital Projects ~

Real Estate Excise Tax (REET) – The REET is available to fund capital improvements. These funds in past years were used for the City Hall payment, as well as the purchase of new properties and design of a Police Range. It is authorized by State law in two parts, with each having different types of capital improvements that can be funded by the tax. The City has imposed both of the REET .25% parts. The total revenues are budgeted at approximately \$400,000 for 2008.

Real Estate Excise Tax

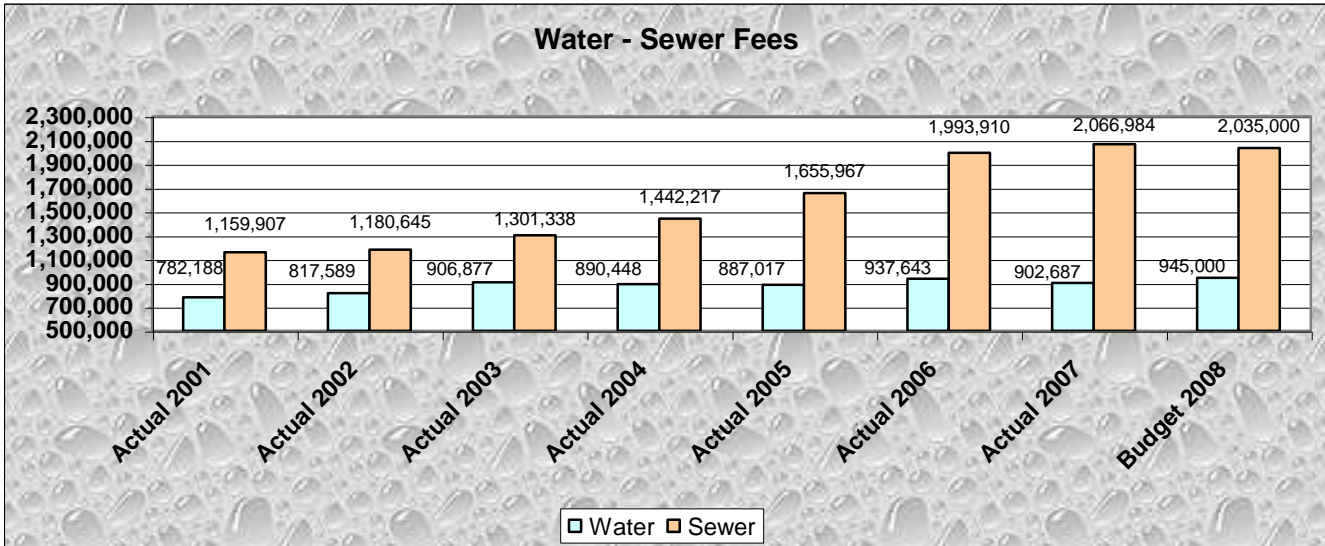


Water-Sewer Utility ~

The water and sewer rates for this fund are directly associated with costs in providing the service to our customers. Effective July 1, 2005 (Ord #010-05), the sewer rates were raised \$9 per month for City customers and \$13.50 per month for services that are outside City limits. No increase in water rates occurred at that time. A rate structure analysis for Water services was completed in 2008. A new beginning tier was created. Those using 0 - 3,000 gallons in a billing cycle would not experience a rate increase. Services using 3,001-5,000 gallons experienced a small rate increase of \$2 per month for customers inside City Limits and \$3 per month for outside City limits. These rates became effective July 1, 2008 (Ord #013-08). Major annexations will reduce Water Sewer Service Fee Revenues collected.

Conservation awareness programs provided to our consumers have shown to help the City's water demand. Though conservation efforts have helped reduce consumption, conservation alone cannot make up for the increased demand by our new customers.

The City is currently providing service to approximately 3,215 customers. McCormick Woods comprises 690 of these accounts and The Ridge 126 accounts. In 2007, approximately 225 new utility accounts were added and 170 have been added in the first seven months of 2008.



Storm Water Utility ~

Port Orchard does not charge a surface (storm) water utility fee. The City is currently evaluating a fee structure based on residential and commercial impact on the City surface water management. A City rate study suggested a monthly residential fee of \$7.50. This monthly fee would generate more than \$240,000 annually. In May 2006 the City was awarded a \$75,000 Grant from the Department of Ecology to assist with the City's Storm Water Management Plan (SWMP). The firm of Jermome Morrisette was hired to develop the plan. This work is now in its final stages. The City must have the final Storm Water Permit in place no later than February 16, 2012.

By not having a revenue source, the City will be subsidizing the storm water responsibilities with Street Fund money. The City of Port Orchard is the only city in the County that does not have a storm water utility.