



City of Lacey, Washington
Finance & Economic Development Committee Agenda

Refer to the bottom of the agenda for meeting information.

Tuesday, October 24, 2023

8:30 AM

Council Chambers and Online

1. Call to Order

2. Roll Call

3. Agenda Items

A. Business and Occupation Tax Model Ordinance

Troy Woo, Finance Director

B. Water and Wastewater Capital Replacement and Repair Funding

Troy Woo, Finance Director

4. Adjourn

Attend Remote or In-Person

The public may attend the meeting in-person, or you may view or listen to the meeting using one of the following platforms:

- In-Person: Council Chambers at Lacey City Hall
420 College Street SE, Lacey, WA 98503
- Zoom: <https://us02web.zoom.us/j/8712668387>
- Website: <https://cityoflacey.org/government/public-meetings/>
- YouTube: <https://www.youtube.com/watch?v=SFmVrExH3yU>
- Phone: (888) 788-0099 or (877) 853-5247 (Webinar ID 871 2668 3872)

Land Acknowledgement

We, the City of Lacey, are on the ancestral land of the Tribal People of the Treaty of Medicine Creek, including the Nisqually Indian Tribe and Squaxin Island Tribe. We acknowledge, and remember those Tribal People not recognized today who were absorbed or relocated into other tribes for survival. We recognize the ancestors and their

descendants who are still here. We recognize and respect the Tribal People of the Treaty of Medicine Creek as the traditional stewards of this land since time immemorial and their role today in taking care of these lands in perpetuity. We recognize and have the responsibility to call attention to the histories of dispossession, forced removal, and abridged treaty rights that allowed our nation, state, and city to develop as it has today. We recommend that community members read the Medicine Creek Treaty of 1854.





**FINANCE & ECONOMIC
DEVELOPMENT COMMITTEE**

October 24, 2023

SUBJECT: Briefing on amendments to the State Business and Occupation (B&O) Model Tax Ordinance and required amendment to Lacey Municipal Code 3.02.078

RECOMMENDATION: Recommend the City Council amend Lacey Municipal Code 3.02.078 to comply with the Statewide Business and Occupation (B&O) Model Tax Ordinance

STAFF CONTACT: Rick Walk, City Manager *RW*
Troy Woo, Finance Director *TW*

ORIGINATED BY: Troy Woo, Finance Department

ATTACHMENTS: 1. Draft Ordinance Language

FISCAL NOTE: None

**WORK PLAN GOAL
AND STRATEGY:** None

PRIOR REVIEW:

BACKGROUND:

The State Legislature adopted SB 5199 during the 2023 Legislative Session that provides permanent State tax relief to newspaper publishers. SB 5199 changes the definition of printing and publishing income for business and occupation (B&O) taxes and takes effect on January 1, 2024.

Since 2004, RCW 35.102 requires cities that levy business and occupation (B&O) taxes to implement a B&O tax model ordinance. The last model ordinance was adopted by the B&O tax cities in 2019. With the passage of SB 5199, the B&O tax model ordinance is required

to be updated. The anticipated agreed upon changes will include an updated definition for printing and publishing income, but not a similar tax exemption for the activity.

The proposed changes will impact Lacey Municipal Code (LMC) 3.02.078. The draft changes to the model ordinance are as follows:

Notwithstanding RCW 35.102.130, effective January 1, 2008, gross income from the activities of printing, and of publishing newspapers, periodicals, or magazines, shall be allocated to the principal place in this state from which the taxpayer's business is directed or managed. As used in this section until December 31, 2023, the activities of printing, and of publishing newspapers, periodicals, or magazines, have the same meanings as attributed to those terms in RCW 82.04.280(1) by the Department of Revenue. Beginning January 1, 2024, until January 1, 2034, as used in this section, the activities of printing, and of publishing newspapers and periodicals or magazines are those activities to which the exemption in RCW 82.04.759 and the tax rate in RCW 82.04.280(1)(a) apply.

RCW 35.102.040(1)(c) requires that all of the B&O tax cities adopt any amendments to the model ordinance with the same effective date. An effective date of January 1, 2024 has been agreed upon by the B&O tax cities. The final language for the changes to the model ordinance is expected on October 27, 2023. Staff will draft the final ordinance for City Council consideration before the end of the year.

It is requested that the Finance and Economic Development Committee review the proposed language change and recommend full City Council adoption of the proposed ordinance amending the City's Business and Occupation tax code.

Proposed revision to City B&O Tax Model Ordinance to incorporate SB 5199 changes to 35.102.150

.78 Allocation and apportionment of printing and publishing income when activities take place in more than one jurisdiction.

Notwithstanding RCW 35.102.130, effective January 1, 2008, gross income from the activities of printing, and of publishing newspapers, periodicals, or magazines, shall be allocated to the principal place in this state from which the taxpayer's business is directed or managed. As used in this section until December 31, 2023, the activities of printing, and of publishing newspapers, periodicals, or magazines, have the same meanings as attributed to those terms in RCW 82.04.280(1) by the department of revenue. Beginning January 1, 2024, until January 1, 2034, as used in this section, the activities of printing, and of publishing newspapers and periodicals or magazines are those activities to which the exemption in RCW 82.04.759 and the tax rate in RCW 82.04.280(1)(a) apply.

Legislative intent information

This section is required by RCW 35.102.150 and provides that printing and publishing income shall be allocated to the city in which taxpayer's business is directed or managed. This section is not mandatory for the model ordinance, but the tax treatment is required by RCW 35.102.150.

This section defines the sourcing of gross income arising from the activities of printing, and publishing newspapers, periodicals, or magazines. The changes effective January 1, 2024 modify only the definition of printing, and of publishing newspapers and periodicals or newspapers in accordance with ESS2B 5199 (2023). This section does not constitute an adoption of the State of Washington business and occupation tax exemption for gross income arising from the activities of printing, and of publishing newspapers, or the tax rate that applies to the activities of printing and of publishing periodicals or magazines.



**FINANCE & ECONOMIC
DEVELOPMENT COMMITTEE**
October 24, 2023

SUBJECT: Water and Wastewater Capital Replacement and Repair
Funding Lacey Municipal Code Update Discussion

RECOMMENDATION: Discuss potential Lacey Municipal Code updates as part of
the utility rate ordinances consideration.

STAFF CONTACT: Rick Walk, City Manager *RW*
Troy Woo, Finance Director *TW*

ORIGINATED BY: Troy Woo, Finance Department

ATTACHMENTS: None

FISCAL NOTE: None

**WORK PLAN GOAL
AND STRATEGY:** None

PRIOR REVIEW:

BACKGROUND:

Upon review of the Water and Sewer rate and charges section of the Lacey Municipal Code (LMC), it was discovered the sections relating to the funding of capital replacement and repairs does not match the current practice.

LMC 13.32.030(g) – Service Charge - - Metered (Water), includes the following language relating to the accumulation of reserves for the replacement of water system assets:

An amount equal to fifteen percent of the revenues received from service charges as set forth herein shall be set aside by the city separately for the purpose of accumulating a depreciation reserve for the replacement of

equipment and plant in place of the water system. The balance of the income received from said charges shall be used for maintenance and operation, construction and debt service requirements of said system.

For a of number years, the budget practice has included the direct receipt of 15 percent of Water rate revenues in the Water Capital Fund and the revenues above those needed for annual operations and maintenance have also been transferred to the Water Capital Fund. The following table illustrates the last five years of revenues and transfers received by the Water Capital Fund.

	Replacement Sales	Capital Transfers
2019	\$ 2,227,075	\$ 3,135,280
2020	2,335,124	4,207,579
2021	2,527,979	3,593,733
2022	2,728,554	4,315,038
2023 Bud.	\$ 2,610,537	\$ 3,997,451

LMC 13.16.061 – Basic Service Charge - - Disposition of Certain Portion (Sewer) includes the following language relating to restricting a portion of the basic sewer service for the replacement and repair of sewerage facilities:

That portion of the basic sewer service charge levied for the purpose of replacing, rebuilding and repairing existing sewerage facilities shall be held in the water and the sewer revenue fund in the restricted amount for the purpose of replacing, rebuilding and repairing existing sewerage facilities of the city, and should the city council so determine, for the purpose of debt service requirements for any bond issue for sewerage facilities.

Similar to Water, the budget practice has included the transfer of revenues that exceed the amount needed for annual operations and maintenance functions and directly receipting a portion of the basic sewer service in the Sewer Capital Fund. Annually, a total of \$2.25 of the basic sewer service charge have been directly receipted by the Wastewater Capital Fund. The following table illustrates the last five years of revenues and transfers received by the Wastewater Capital Fund.

	Replacement Sales	Capital Transfers
2019	\$ 365,548	\$ 976,140
2020	366,816	546,590
2021	382,322	496,489
2022	400,076	841,437
2023 Bud.	\$ 444,788	\$ 2,257,121

To streamline the accounting function, it is recommended LMC 13.16.061 – Basic Service Charge (Sewer) - - Disposition of Certain Portion and LMC 13.32.030(g) – Service Charge - - Metered (Water) are rescinded and those replacement sales be receipted by the Water and Wastewater operating funds and the funding of capital projects be addressed through one annual transfer of revenues that exceed operating expenses. This change will have no impact on the funding of utility capital projects. Utility comprehensive plans and revenue requirement studies already assume that once all operational expenditures are met the remaining revenues are available for capital and debt expenditures. The Stormwater rate section of the LMC does not have similar provisions requiring identified funding for capital replacement and repairs. Stormwater capital projects are currently funded by one annual transfer of revenues in excess of annual operating expenditures.

It is requested that the Finance and Economic Development Committee review the proposal to rescind the required receipting of revenue into the Water and Wastewater Capital Funds. The change can be considered within the utility rate ordinances that are scheduled City Council consideration on November 16, 2023.

ADVANTAGES:

1. Rescinding the requirement to receipt capital funding directly will reduce the number of annual accounting transactions.
2. There will be no less funding available for utility capital projects.
3. The annual budget development process, comprehensive plan, and revenue requirement modelling will be simplified.

DISADVANTAGES:

1. While including the capital funding requirement in the LMC ensures the funding source, the City Council has and will continue to accomplish the same intent through the budget process.