



**CITY OF STANWOOD
CITY COUNCIL
AGENDA STAFF REPORT**

ITEM NUMBER: 8b
DATE: November 21, 2016
SUBJECT: Ordinance 1436 Amending SMC 5.01”Utility Tax” to levy State Public Utility Tax and Business and Occupation Tax on Water, Sewer and Drainage Utilities
CONTACT PERSON: Deborah Knight, City Administrator
ATTACHMENTS: A – Ordinance 1436 State Public Utility Tax and Business and Occupation Tax
 B – Chapter 5.01 Utility Tax
 C – Utility Tax Notice
 D – Priority Capital Projects

ISSUE

The issue in front of the city council is whether or not to have second reading and final adoption of Ordinance 1436 to amend the Stanwood Municipal Code (SMC) Section 5.01.040 to levy State Public Utility Tax and Business and Occupation Tax on water, sewer and drainage utilities.

RECOMMENDATION

The public works committee reviewed the proposals to raise utility revenues to fund priority capital projects at its September 12, 2016 meeting.

The committee recommended:

1. Charging customers directly for State Utility and Business and Occupation taxes; and
2. Reducing machinery and equipment purchases; and transfers to equipment replacement in the water division for 2017-2018.

The city council discussed the committee’s recommendation at the Special Meeting on October 3, 2016 and directed city staff to budget \$5,000 in 2017 and 2018 in the water equipment replacement fund; and bring back an ordinance to levy the following State Public Utility Tax and Business and Occupation (B&O) taxes on water, sewer and drainage utilities:

Utility	State Public Utility Tax (Levied on Gross Revenues)	State Business and Occupation Tax (Levied on Gross Revenues)
Water	5.029%	0%
Sewer	3.853%	0%
Drainage	0%	1.5%

The proposed change will add \$1.28 to the water based rate: \$1.58 to the sewer based rate and \$.18 to the drainage base rate.

2017	Water	Sewer	Drainage	Total Res. Rate
Residential Base Rate	\$25.59	\$41.18	\$12.25	\$79.02
Public Utility Tax	\$1.28	\$1.58	\$0	\$2.86
B&O Tax	\$0	\$0	.184	.184
Total	\$26.87	\$42.76	\$12.43	\$82.06

There was no public comment during the public hearing held on November 10, 2016 at the council meeting and council unanimously approved first reading of Ordinance 1436.

The policy question for the city council is whether to raise additional revenues for water, sewer and drainage capital projects by separately billing utility customers for all or part of the state utility excise taxes the city pays to the Department of Revenue for utility services. The money collected would be used to fund priority capital projects for system replacement and improvements.

SUMMARY STATEMENT

Water and Sewer Utilities

The city's water and sewer operating budgets include rate increases through 2019. There is a 5% rate increase for water and a 3.5% rate increase scheduled for sewer effective January 1, 2017. There are no adopted rate increases for the drainage utility.

The scheduled rates increases are not sufficient to generate capital funding especially in the water utility.

For the past two years, the city has used excess operating reserves in the Water Operating Fund to transfer approximately \$377,000 to the Water Construction Fund to replace water mains on Pioneer Highway and 270th Street. The Sewer Operating budget includes \$200,000 transfers to Sewer Construction through 2019.

The scheduled 5% rate increase for the water utility, effective January 1, 2017 and January 1, 2018, will generate approximately \$34,000 for system replacement. Other sources of funding for system replacement in the Water Construction Fund include Water Connection Fees (\$12,000) and Water Plant Investment revenues from new construction (\$105,600).

The 2016 and 2017 water capital budget only includes \$50,000 in annual miscellaneous improvements beginning in 2018 in order to maintain a reserve balance in the water construction fund for unanticipated expenses and rebuild fund balances for future improvements,.

The policy question for the city council is how to fund on-going repair and replacement needs especially in the water utility.

There are three options – lower expenses, raise revenues or secure long-term debt (borrowing). Borrowing would require the city to raise revenues in order to the make

debt service payments. Staff recommend a “pay as you go” model until 2020 when utility rates will be recalculated to meet long term needs.

In order to generate sufficient revenues to maintain current infrastructure, city staff recommend raising revenues, reducing expenses or a combination of both. The money collected would be used to fund priority capital projects for system replacement and improvements (Attachment D).

Since funding isn't available to pay debt service, the following sections evaluate lowering expenses and raising revenues in the water, sewer and drainage utilities to fund system reinvestment (capital projects) through 2019.

DISCUSSION

Lower Expenses

The 2017-2018 Water Operating Budget is balanced. Over all, expenses in the water fund will increase less than 1% between 2016 and 2017 because the transfers to the capital construction fund will end in 2017.

The operating fund includes transfers for debt service (\$539,201), machinery and equipment (\$25,000), and equipment reserves (\$10,000).

While the principle and interest payments on debt service are non-negotiable, the city council could delay machinery and equipment purchases and defer transfers to equipment reserves. However, this is effectively “robbing Peter to pay Paul”. Whether the short-fall is in machinery and equipment or repair and replacement, there is still a short-fall.

Delaying investments in the utility only exacerbates the problem and eventually results in higher rates and decreased operation efficiencies. Additional revenue is needed to ensure the city maintains critical utility infrastructure. The life expectancy of water main is 50 years old. 14% of the city's water main, mostly in the historic business district, is over 50 years old.

The 2017-2018 Sewer Operating Budget is balanced. Expenses in the sewer fund are scheduled to increase 7.5% to cover utilities, plant repair and salaries for a full crew at the water treatment plant. The waste water treatment plant is over 10 years old. The 2017 budget increases repair and maintenance from \$25,000 to \$40,000. Utility costs are increased from \$110,000 to \$160,000 to run the aerators as required by the Department of Ecology. Machinery and Equipment and Equipment Replacement expenses are maintained at current rates.

There is a \$200,000 transfer from the sewer operating fund to the sewer capital construction fund anticipated through 2019. After 2019, the transfers should stop because the revenue is needed to maintain a \$500,000 balance in the sewer operating budget.

There are some steps the city council could take to reduce expenses. These are short-term fixes rather than long-term solutions. In the sewer system, the city needs to

replace aging sewer conveyance systems and upgrade undersized pipes to allow for new development.

The 2017-2018 Drainage Operating Budget is balanced. The same story exists for the drainage utility. The budget is balanced but there are insufficient revenues to transfer funds for repair and improvement of the drainage system. The city council has directed staff to evaluate a drainage rate increase. This policy decision will be discussed separately by the city council.

Raise Revenues

The city council adopted scheduled rate increases in water (5%) and sewer (3.5%) through 2019. The city council could choose to raise rates before 2019 in order to maintain transfers to fund capital improvements.

A 1% rate increase in the water utility (approximately \$.25) generates approximately \$16,000 in additional revenues.

A 10% rate increase (5% planned + 5% proposed) is needed in the water fund to generate an additional \$80,000 to fund annual system repair and replacement.

Table 1 – Effect of 1% Water Rate Increase in 2017

SFR	2016	2017			
	5%	5% Scheduled	6%	8%	10%
Water Increase					
Water	\$24.37	\$25.59	\$25.83	\$26.32	\$28.15
Sewer	\$39.79	\$41.18	\$41.18	\$41.18	\$41.18
Drainage	\$12.50	\$12.25	\$12.25	\$12.25	\$12.25
Total Rates	\$76.66	79.02	\$79.26	\$79.75	\$81.85
Revenue Generated Water Capital Funding		\$0	\$16,000	\$32,000	\$80,000

Charge Excise Tax

The State of Washington imposes excise taxes on public service businesses operating in Washington State. The basis for the tax is gross revenues net allowed deductions and exemptions. Examples of excise taxes include public utility tax, business and occupation tax and sales and use tax.

The city currently pays the following excise tax to the State on gross revenues, less allowed deductions, for water, sewer and drainage utilities:

Table 2 – State Utility and B&O Tax on Water and Sewer Utilities

	Public Utility Tax	B&O Tax	2016 Budget
Description	RCW 82.16.020 Imposed on public service businesses, including water and sewer utilities	RCW 82.04.290 Applied to revenues for service not explicitly addressed elsewhere	
Water	5.029%	N/A	\$90,000
Sewer	3.852%	N/A	\$37,000
Drainage	N/A	1.5%	\$7,000

The city council could choose to charge customers all or a portion of the public utility and B&O tax currently paid by the city.

This approach would allow the city to raise revenues without raising utility rates. However, the net effect to the customer would be an increase in the overall utility bill.

Table 3 – State Utility and B&O tax Impact on Rates

2017	Water	Sewer	Drainage	Total Res. Rate
Residential Base Rate	\$25.59	\$41.18	\$12.25	\$79.02
Public Utility Tax	\$1.28	\$1.58	\$0	\$2.86
B&O Tax	\$0	\$0	.184	.184
Total	\$26.87	\$42.76	\$12.43	\$82.06
Revenue Generated	\$82,000	\$37,000	\$7,000	\$126,000

Combination Reduce Expenses/Raise Revenues

The city council could choose a combination approach of lowering expenses by postponing investments in equipment and equipment replacement for the next three years with the understanding that utility rates would increase in 2020 sufficiently to recoup the deferred investment.

Postponing investments in equipment would be coupled with an increase in utility rates in 2017 sufficient to generate enough revenue for system replacement.

	2017		Utility Rate Increase	Total
	Machinery & Equipment	Equipment Reserve	1%	
Water	\$25,000	\$10,000	\$16,000	\$51,000
Sewer	\$25,000	\$20,000	\$34,000	\$79,000
Drainage	\$0	\$10,000	\$4,500	\$14,500

The 2017 water budget includes transfers to equipment reserve to replace the 2001 Sonoma truck with a Ford F-150 in 2019.

SUMMARY

The city’s utility rates are not generating sufficient revenue to fund system reinvestment.

The 2014 water rate study (based on 2013 expenses) under estimated 2016 salaries and benefit costs by \$55,000 and repair and maintenance costs by 24,000. Reducing these expenses would require laying off an employee in the water division and pulling back on system repair and maintenance.

Collecting the public utility tax in sewer only generates \$37,000 in additional revenue. The B&O tax in the drainage utility is \$7,000. The city can continue to make a \$200,000 transfer from the sewer operating fund to the sewer construction fund through 2019 when the next rate study is scheduled.

It may make sense to only collect all or a portion of the public utility tax in the water fund through 2019. The other option is a rate increase. A 1% rate increase in the water

utility (\$.25) raises \$16,000. The water operating fund should transfer at least \$50,000 for system replacement annually. That is a 3% rate increase.

The city council could choose to take a balance approach. Lowering some expenses while raising utility rates by 1%-3%. Stormwater rates would be analyzed separately.

CITY COUNCIL OPTIONS

The city council may:

1. Adopt Ordinance 1436 amending SMC Chapter 5.01 "Utility Tax", Section 5.01.040 "Businesses and Utilities Subject to Utility Tax Amount" relating to levying State Public Utility Tax and State Business and Occupation Tax.
2. Do not adopt Ordinance 1436 amending SMC Chapter 5.01 "Utility Tax", Section 5.01.040 "Businesses and Utilities Subject to Utility Tax Amount" relating to levying State Public Utility Tax and State Business and Occupation Tax and direct staff to address areas of concern.
3. Do not adopt Ordinance 1436 amending SMC Chapter 5.01 "Utility Tax", Section 5.01.040 "Businesses and Utilities Subject to Utility Tax Amount" relating to levying State Public Utility Tax and State Business and Occupation Tax.

RECOMMENDED MOTION

I MOVE TO HAVE SECOND READING AND FINAL ADOPTION OF ORDINANCE 1436 AMENDING STANWOOD MUNICIPAL CODE CHAPTER 5.01 ENTITLED "UTILITY TAX" ; SECTION 5.01.040 ENTITLED "BUSINESSES AND UTILITIES SUBJECT TO UTILITY TAX AMOUNT" RELATING TO LEVYING STATE PUBLIC UTILITY TAX AND STATE BUSINESS AND OCCUPATION TAX.

**CITY OF STANWOOD
Stanwood, Washington**

ORDINANCE 1436

AN ORDINANCE OF THE CITY OF STANWOOD, WASHINGTON, AMENDING STANWOOD MUNICIPAL CODE CHAPTER 5.01 ENTITLED UTILITY TAX; SECTION 5.01.040 ENTITLED "BUSINESSES AND UTILITIES SUBJECT TO UTILITY TAX AMOUNT" RELATING TO COLLECTING STATE PUBLIC UTILITY TAX AND STATE BUSINESS AND OCCUPATION TAX; ESTABLISHING AN EFFECTIVE DATE; AND PROVIDING FOR SEVERABILITY.

WHEREAS, The Stanwood City Council has reduced investments in machinery and equipment in the water, sewer and drainage utility budgets to help fund much needed utility improvements; and

WHEREAS, The city continues to lower operating and capital expenses by doing more capital projects using city staff rather than contracting for services; and

WHEREAS, Under RCW 82.16.020 the State of Washington charges a public utility tax of 5.029 percent for water and 3.853 percent for sewer, and a 1.5 percent Business and Occupation (B&O) tax for drainage; and

WHEREAS, The city currently pays the State Public Utility Tax and the state Business and Occupation tax out of the utility rates collected from utility customers; and

WHEREAS, The city council is considering charging customers directly for the State Utility and B&O tax for water, sewer and drainage service in order to further fund much needed utility improvements;

NOW THEREFORE, THE CITY COUNCIL OF THE CITY OF STANWOOD, WASHINGTON, DO ORDAIN AS FOLLOWS:

Section 1. SMC Section 5.01.040 entitled "Business and Utilities Subject to Utility Tax" is hereby amended to read as follows:

(1) There are levied and shall be collected utility taxes against persons on account of business activities in amounts to be determined by the nature of the business activities and by the application of rates against gross income, as follows:

(1) ~~Utilities.~~

(a) Electric. Upon every person engaged in or carrying on the business of selling or furnishing electric light and power within the city of Stanwood, a tax equal to six percent of the total gross revenue from such business during the tax-reporting period;

(b) Gas. Upon every person engaged in or carrying on a business of selling or furnishing gas within the city of Stanwood, a tax equal to six percent of the total gross revenue from such business in the city during the tax-reporting period;

(c) Telephone. Upon every person engaged in or carrying on a telephone business within the city of Stanwood, a tax equal to six percent of the total gross revenue from such business during the tax-reporting period;

(d) Water. Upon every person engaged in or carrying on the business of selling or furnishing water within the city of Stanwood-;

(i) a city tax equal to 10 ten and seven-tenths (10.07) percent of the total gross revenue from such business during the tax-reporting period;

(ii) a State Public Utility Tax equal to five and twenty-nine tenths (5.029) percent of total gross revenue.

(e) Sanitary Sewer. Upon every person engaged in or carrying on the business of furnishing sanitary sewer services within the city of Stanwood-;

(i) a city tax equal to six (6) percent of the gross revenue from such business during the tax-reporting period;

(ii) a State Public Utility Tax equal to three and eight hundred and fifty-two (3.852) percent of the total gross revenue.

(f) Drainage. Upon every person engaged in or carrying on the business of providing drainage services within the city of Stanwood-;

(i) a city tax equal to six (6) percent of the gross revenue from such business during the tax-reporting period;

(ii) a State Business and Occupation Tax equal to one and one-half (1.5) percent of the total gross revenues.

(g) Garbage. Upon every person engaged in or carrying on the business of collection of garbage or solid waste within the city of Stanwood, a tax of six percent of the gross revenue from such business during the tax-reporting period;

(h) Cable Television. Upon every person engaged in or carrying on a cable television business within the city of Stanwood, a tax equal to three percent of the gross revenue from such business in the city during the tax-reporting period. (Ord. 1287 § 1, 2010; Ord. 1019, 1997).

Section 2. Severability.

If any section, sentence, clause, or phrase of this Ordinance is held to be invalid or unconstitutional by a court of competent jurisdiction, such invalidity or unconstitutionality shall not affect the validity or constitutionality of any other section, sentence, clause, or phrase of this Ordinance.

Section 3. Effective Date. This Ordinance shall take effect January 1, 2017.

PASSED by the City Council and APPROVED by the Mayor this 21st day of November, 2016.

CITY OF STANWOOD

By _____
Leonard Kelley, Mayor

ATTEST:

By _____
Deborah Knight Interim City Clerk

Approved as to form:

By _____
Grant K. Weed, City Attorney

Date of Publication _____

Effective Date _____

Chapter 5.01 UTILITY TAX*

Sections:

- [5.01.010](#) Generally.
- [5.01.020](#) Definitions.
- [5.01.030](#) Reporting period and payment provisions.
- [5.01.040](#) Businesses and utilities subject to utility tax – Amount.
- [5.01.050](#) Exemptions and deductions.
- [5.01.060](#) Sale or transfer of business.
- [5.01.070](#) Taxpayer to keep books and records – Returns to be confidential.
- [5.01.080](#) Right to audit.
- [5.01.090](#) Overpayment or underpayment of tax.
- [5.01.100](#) Late payment penalties.
- [5.01.110](#) Clerk-treasurer to make the rules.
- [5.01.120](#) Violation – Penalty.

*Prior legislation: Ords. 208, 554, 576, 602, 618, 644, 665, 682, 704, 853, 854 and 958.

5.01.010 Generally.

There are levied and shall be collected utility taxes against the persons on account of the business activities, and in the amounts to be determined by the application of the rates against gross income, as set forth in this chapter. (Ord. 1019, 1997).

5.01.020 Definitions.

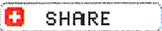
In construing the provisions of this chapter, save when otherwise plainly declared or clearly apparent from the context, the following definitions shall be applied:

- (1) "Person" or "persons" mean persons of either sex, firms, copartnerships, corporations and other associations of natural persons, whether acting by themselves or by servants, agents or employees.
- (2) "Taxpayer" means any person liable for taxes imposed by this chapter.
- (3) "Gross revenue" means revenues received by a utility or business from operations or sales within the city less net uncollectibles. Gross revenue of natural, artificial or mixed gas and electric utilities shall include

revenues from the use, rental or lease of operating facilities of the utility other than residential-type space and water heating equipment. Gross revenues shall not include charges which are passed onto the subscribers by a utility pursuant to tariffs required by regulatory order to compensate for the cost to the company of the tax imposed by this section. Gross revenues of telephone utilities shall include 100 percent of the toll service fees from calls originating in and/or billed to subscribers within the city of Stanwood including revenue from providing access to a local telephone network, local telephone network switching service, toll service, or coin telephone services, telephonic, video, data or similar communication or transmission for hire, via a local telephone network, toll line or channel, cable, microwave, or similar communication or transmission system, including transmission of communication for cellular telephones or other wireless phone service. Gross revenues of cable television utilities shall include revenues from the one-way transmission of video programming and associated nonvideo signals to subscribers which is provided in connection with video programming. (Ord. 1019, 1997).

5.01.030 Reporting period and payment provisions. 

Utility taxes are due at the end of each monthly tax-reporting period. However, the city clerk-treasurer may, in the interest of economy of administration, set quarterly tax-reporting periods for individual taxpayers. Remittance of utility taxes imposed by this section shall be made to the city clerk-treasurer on or before the twenty-fifth day of the month next succeeding the end of the tax-reporting period. (Ord. 1019, 1997).

5.01.040 Businesses and utilities subject to utility tax – Amount. 

There are levied and shall be collected utility taxes against persons on account of business activities in amounts to be determined by the nature of the business activities and by the application of rates against gross income, as follows:

(1) Utilities.

(a) Electric. Upon every person engaged in or carrying on the business of selling or furnishing electric light and power within the city of Stanwood, a tax equal to six percent of the total gross revenue from such business during the tax-reporting period;

(b) Gas. Upon every person engaged in or carrying on a business of selling or furnishing gas within the city of Stanwood, a tax equal to six percent of the total gross revenue from such business in the city during the tax-reporting period;

(c) Telephone. Upon every person engaged in or carrying on a telephone business within the city of Stanwood, a tax equal to six percent of the total gross revenue from such business during the tax-reporting period;

(d) Water. Upon every person engaged in or carrying on the business of selling or furnishing water within the city of Stanwood, a tax equal to 10 and seven-tenths percent of the total gross revenue from such business during the tax-reporting period;

(e) Sanitary Sewer. Upon every person engaged in or carrying on the business of furnishing sanitary sewer services within the city of Stanwood, a tax equal to six percent of the gross revenue from such business during the tax-reporting period;

(f) Drainage. Upon every person engaged in or carrying on the business of providing drainage services within the city of Stanwood, a tax equal to six percent of the gross revenue from such business during the tax-reporting period;

(g) Garbage. Upon every person engaged in or carrying on the business of collection of garbage or solid waste within the city of Stanwood, a tax of six percent of the gross revenue from such business during the tax-reporting period;

(h) Cable Television. Upon every person engaged in or carrying on a cable television business within the city of Stanwood, a tax equal to three percent of the gross revenue from such business in the city during the tax-reporting period. (Ord. 1287 § 1, 2010; Ord. 1019, 1997).

5.01.050 Exemptions and deductions. 

There shall be exempted and deducted from the total gross income upon which the tax is computed so much thereof as is derived from transactions in interstate or foreign commerce, or from business done for the government of the United States, its officers or agents and any amount paid by the taxpayer to the United States, the state, or the city, as excise taxes levied or imposed upon the sale or distribution of property or services. There shall be exempted and deducted from the total gross income upon which the tax is computed all bad debts for services incurred, rendered or charged for during the tax-reporting period. Debts shall be deemed bad and uncollectible when the same have been written off the books of the taxpayer. (Ord. 1019, 1997).

5.01.060 Sale or transfer of business. 

Upon the sale or transfer during any tax year of a business subject to the utility tax, the purchaser or transferee shall, if the tax has not been paid in full for said year, be responsible for its payment for that portion of said year during which he carries on such business. (Ord. 1019, 1997).

5.01.070 Taxpayer to keep books and records – Returns to be confidential. 

It shall be the duty of each taxpayer taxed upon his gross income to keep and enter in a proper book or set of books or records an account(s) which shall accurately reflect the amount of his gross income, which account shall always be open to the inspection of the city clerk-treasurer, or his duly authorized agent, and from which said officer or his agent may verify the return made by the taxpayer. The applications, statements or returns made to the city clerk-treasurer, pursuant to this chapter, shall not be made public, nor shall they be subject to inspection of any person except the mayor, city attorney, the city clerk-treasurer, or his authorized agent, and members of the city council. (Ord. 1019, 1997).

5.01.080 Right to audit. 

If any taxpayer fails to make his return, or if the city clerk-treasurer is dissatisfied as to the correctness of the statements made in the application or return of any taxpayer, the city shall have the right, at the expense of the business subject to taxation, to conduct such audit procedures as are necessary to establish or account for the taxable revenue should the business subject to taxation fail or refuse to provide an accounting. (Ord. 1019, 1997).

5.01.090 Overpayment or underpayment of tax. 

If the city clerk-treasurer upon investigation or upon checking a return finds that the tax paid is more than the amount required of the taxpayer, he shall refund the amount overpaid by a warrant upon the general fund. If the city clerk-treasurer finds that the tax paid is less than required, he shall send a statement to the taxpayer showing the balance due. Said taxpayer shall within 10 days after notification pay the amount shown thereon. (Ord. 1019, 1997).

5.01.100 Late payment penalties. 

All taxes due under this chapter, beginning with tax to be paid for the month of January, 1998, if said tax is not paid on or before the time specified in SMC [5.01.030](#), a late payment penalty shall accrue and be added to the tax due as follows: If any tax is not paid within 15 days of its due date, a penalty shall be added equal to five percent of the tax. (Ord. 1019, 1997).

5.01.110 Clerk-treasurer to make the rules. 

The city clerk-treasurer shall have the power and it shall be his duty, from time to time, to adopt, post in the City Hall, and enforce rules and regulations not inconsistent with this chapter or with law for the purpose of carrying out the provisions thereof, and it is unlawful to violate or fail to comply with any such rule or regulation. (Ord. 1019, 1997).

5.01.120 Violation – Penalty  SHARE]

Violation of this chapter shall constitute a Class B infraction as defined in SMC [13.01.045](#)(1) and subject the violator to enforcement as set forth therein. Any such fines shall be in addition to the tax required. Officers, directors and managers of any organization conducting business activities shall be jointly and severally liable for the payment of the tax, late penalties, and any fine imposed under SMC Title [13](#). (Ord. 1112 § 2, 2001; Ord. 1018, 1997; Ord. 1019, 1997).

City of Stanwood

PROPOSED CHANGES TO WATER, SEWER AND DRAINAGE UTILITY BILLING RATES

AS PART OF THE 2017-2018 BUDGET, THE STANWOOD CITY COUNCIL IS CONSIDERING CHANGES TO STATE UTILITY TAXES FOR WATER, SEWER AND DRAINAGE TO FUND MUCH NEEDED UTILITY IMPROVEMENTS. THERE IS ALSO A PROPOSED DRAINAGE RATE INCREASE FOR COMMERCIAL/MULTI-FAMILY CUSTOMERS (SEE PAGE 2). IF APPROVED, THESE CHANGES WOULD BE EFFECTIVE JANUARY 1, 2017.

How will my utility bill change?

The city currently pays the State Public Utility Tax and the State Business and Occupation (B&O) tax out of the utility rates collected from customers. The city council is considering charging customers directly for the State utility and B&O taxes.

How much is the State Public Utility Tax and State B&O tax?

Under RCW 82.16.020, the state charges a public utility tax of 5.029% for water and 3.853% for sewer. There is a 1.5% B&O tax for drainage.

How will this affect my utility bill?

That depends on the amount of water your household or business uses. The proposed change will add \$1.28 to the water base rate; \$1.58 to the sewer base rate and \$.18 to the drainage base rate.

2017	Water	Sewer	Drainage	Total Res. Rate
Residential Base Rate	\$25.59	\$41.18	\$12.25	\$79.02
Public Utility Tax	\$1.28	\$1.58	\$0	\$2.86
B&O Tax	\$0	\$0	.184	.184
Total	\$26.87	\$42.76	\$12.43	\$82.06

How will the money be used?

The city pays approximately \$90,000 annually to the State for the water public utility tax; \$37,000 for sewer utility tax and \$7,500 for the State B&O tax. By charging customers directly for State taxes, the city can use this money for much needed improvements to the utilities.

Did the city council consider lowering expenses to fund capital improvements?

Yes. The city council reduced investments in machinery and equipment to fund capital improvements.

How will the money be used?

The city continues to lower costs by doing more projects using in-house staff. Future projects include replacing old and failing pipes on 81st Drive, 88th Ave NW, 103rd Ave NW, 101st Ave NW and 288th Street NW.

City of Stanwood

PROPOSED DRAINAGE UTILITY RATE INCREASE FOR COMMERCIAL AND MULTI-FAMILY CUSTOMERS

There is also a proposed drainage rate increase for commercial/multi-family customers. These changes would be effective January 1, 2017.

What is the drainage utility?

The drainage utility pays to maintain catch basins, stormwater pipes, retention ponds, ditches and pump stations that keep Stanwood dry during wet weather.

Why is the city council proposing to increase rates?

The last rate increase was in 2008. Additional money is needed for new pumps and conveyance systems (pipes) to protect the city from flooding.

Why is the increase only for commercial and multi-family customers?

Commercial and multi-family properties have the largest amount of hard surfaces generating the greatest amount of water runoff. Under the current rate structure single-family homes pay 67% of the utility's rate revenue while commercial and multi-family properties are paying 33% of the revenue. Under the proposed rates, residential customers would pay 60% and commercial/multi-family would pay 40%.

Rate Class Per Unit	Current Rate/Mo	Proposed Rate/Mo
Residential	\$12.25	\$12.25
Multi-family	\$6.10	\$9.45
Businesses < 2 units	\$18.30	\$25.40
Businesses > 2 units	\$6.10	\$8.45
Improved Land	\$12.25	\$25.40

What other options did the city consider?

The city council evaluated five alternatives including a one-time 20% across the board increase and annual rate adjustments between 5% and 20%. The proposed rate structure was first considered by the city council in 2009.

How much money will the new rates generate?

The drainage utility receives approximately \$415,000 annually. The new rate structure will generate approximately \$55,000 to use toward repair and improvements including matching money for grants.

How can I learn more?

Visit the city's website at www.ci.stanwood.wa.us/citycouncil/page/city-council-special-meeting-25

Want to share your thoughts?

Attend a city council meeting at the School Administration Building located at 26920 Pioneer Highway in Stanwood at 7PM on October 27, November 10 or November 21 or Submit comments to Deborah.knight@ci.stanwood.wa.us or Call 360-629-2181 ext 4506

**2017-2018 Water Fund
In-House Capital Projects**

Project	Description	Cost
81 st Dr.	Tie services over to 10" & abandon 2"	\$5000
88 th Ave./Rite Aid to 271 ^s)	610' of 12" PVC	\$50000
103 rd Dr./271 st to 273 rd	840' of 8" PVC	\$35000
Boe Rd. - Bodle Bridge to Barn	900' of 4" PVC	\$10000
Decommission Furry Well	N/A	\$25000
Decommission Bryant Well 2	N/A	\$25000
288 th St. – 68 th to 64 th	2050' 8" PVC	\$50000
101 st Ave. – 272 nd Pl. to 274 th	730' 8" PVC	\$35000

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