



Public Utility Tax Water, Sewer, Stormwater & Garbage

City Council
February 5, 2024
Update of the 10-16-23 Presentation

Overview

- Sewer and Stormwater Rate Study Update
- Definition of Utility Tax
- Utility Business Tax History
- How does B&O tax work
- Current Municipal Code for City Utility Business Tax
- Utility Tax Forecast
- Next Steps

Background

Presentations were provided to the City Council Finance and Budget Committee on September 20, 2023 and to the Full Council on October 16, 2023.

1.5% of the City Utility Tax was set to expire in 2023. The Council extend the utility tax such that the current aggregate rate is 18% for water, sewer, and garbage.

The City is considering adopting new Sewer and Stormwater and staff received feedback confirming the proposal to eliminate capital surcharge and revise the rate structure to include all costs in the base rate.

City council provided feedback to staff to adjust utility rates and the bills accordingly.

Background - Sewer & Stormwater Rate Study Update

Financial Consulting Solutions (FCS) Group has performed rate study analysis and presented information at the January 8th Council Workshop.

Key goals have been included in the rate analysis

- Split fund balance between water and sewer utilities for future sustainability of each business unit
- Incorporate general sewer plan capital needs per August 14th City Council workshop discussion
- Update Stormwater capital plan
- Analyzing tax calculations
 - State B&O Tax
 - City Utility Tax
- Update Sewer and Stormwater operational costs

Timeline: Rates are planned to be implemented effective April 1, 2024

Background - What Is Utility Tax?

- State Law authorizes cities to impose a business and occupation gross receipts tax on utility services provided within a city. This is commonly referred to as “Utility Tax”.
- Utility tax funds general government. It does not fund utility operations and improvements.
- Why utility tax? Water, Sewer, Garbage, and Stormwater businesses that operate within a city are not subject to other city taxes such as property tax or sales and use tax. Utility tax recognizes utility businesses have impact to general government and thus may be required to pay tax to the City similar to other business B&O taxes.
- The City of PT operates business units of water, sewer, and stormwater utilities. The City chooses to contract service for solid waste collection. These independent business units must collect enough revenue through rates to operate sustainably.

Background - Utility Tax History

- PTMC 5.84.030
 - Utility Tax imposed on January 1, 1982, at 10%
 - Increased to 22% in 2015 with an informal dedication of 2% to facilities and parks (not codified but included in 2015 minutes). 2% set to expire in 2018.
 - 2% continued for 5 years in 2018 until 2023.
 - April 2022, tax rate decreased to 18.0% to reflect proper calculation of a gross revenue tax. 1.5% set to expire Dec. 31, 2023

PTMC 5.84.030

Utility Business Tax

PTMC 5.84.030

Section 5.84.030(G) - 18% - April 1 – 2022 to December 31, 2023

- Effective January 1, 2024, revert to 16.5%
- Storm & Surface water utility
- Water system
- Sewer system

Section 5.84.030(H) – Solid Waste Collection subject to 22% - April 1 – 2022 to December 31, 2023

- Effective January 1, 2024, revert to 20%
- Solid Waste or Garbage

Note: Capital Surcharge portion of the utility revenue is currently not subject to Utility Tax per 5.84.030(G). The new proposed rate structure includes Capital Surcharge into the base rate.

PTMC 5.84.030

Mechanics of Gross Receipts Tax

How Does B&O Tax Work?

B&O tax is an expense to the business based on total gross receipts. B&O tax is not a pass thru tax like sales tax.

For example, in 2022

- Water/Sewer utility paid the state approx. \$360k in State B&O tax
- Stormwater utility paid the state approx. \$21k in State B&O tax
- Water/Sewer utility paid the City General Fund \$1,210,244 in Utility tax
- Stormwater utility paid the City General Fund \$161,660 in Utility tax

In order for the water, sewer, and stormwater utility business to have enough money to pay the tax as a cost of business, the rates must be set to ensure enough revenue is collected to run the business including paying state and city taxes.

Difference Gross Receipts vs. Pass Thru Taxes

Example Pass Thru Tax

Shop Receipt

Items A	\$10.50
<u>Item B</u>	<u>\$ 2.35</u>
Subtotal	\$12.85
Sales Tax (9.1%)	\$ 1.17
Amount Due	\$14.02

Tax is collected and
passed through to
the State of
Washington

B&O (Gross Receipts) are Not Pass Thru Taxes

Example Pass Thru Tax



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PTMC
5.84.030

CITY OF PORT TOWNSEND
250 MADISON STREET #1
PORT TOWNSEND, WA 98368
(360) 385-2700

CITY OF PORT TOWNSEND
250 MADISON ST
PORT TOWNSEND, WA 98368

Account Statement

ACCOUNT INFORMATION

ACCOUNT: 010881-000
SERVICE ADDRESS: 250 MADISON ST ANNEX
SERVICE PERIOD: 8/1/2023 to 8/31/2023
BILLING DATE: 8/31/2023
DUE DATE: 9/20/2023

METER READING

Serial No	Previous Reading		Current Reading		Cons
	Date	Reading	Date	Reading	
63464527	7/7/2023	3700	8/7/2023	3740	4000

SPECIAL MESSAGE

~ Current Charges, excluding Surcharges, include estimated applicable State and City taxes.
~ If not paid by the due date, a \$5.00 minimum penalty or a 1-1/2% penalty, whichever is greater, will be applied to the account.

CURRENT CHARGES

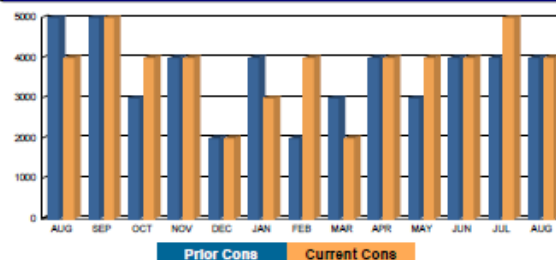
Water	178.21
Wastewater	127.92
Storm	62.51

CURRENT CHARGES 368.64

Water Capital Surcharge	24.00
Sewer Capital Surcharge	9.00
Storm Capital Surcharge	6.00

TOTAL CURRENT CHARGES 407.64

USAGE HISTORY



BILL SUMMARY

PREVIOUS BALANCE	420.33
PAYMENTS RECEIVED	-420.33
ADJUSTMENTS	0.00
ADDITIONAL BILLING	0.00
CURRENT CHARGES	407.64

TOTAL AMOUNT DUE 407.64

PTMC 5.84.030 Utility Bill

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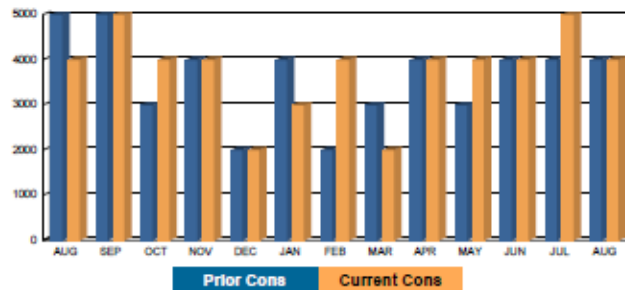
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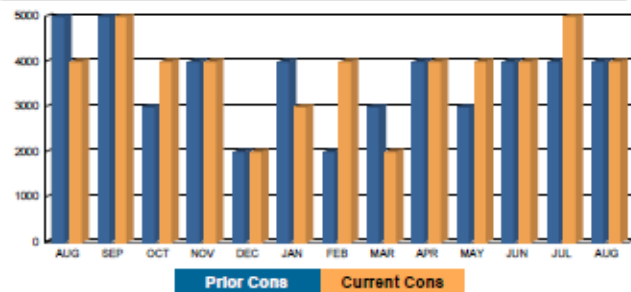
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Tax Disclosure

- The City reports utility tax rates on the City's website at:

https://cityofpt.us/sites/default/files/fileattachments/finance/page/15251/2023_city_utility_service_rates.pdf

- Upon review of RCW, staff recommends updating the City's billing statement to include total tax percentage for clarity.

PDF **RCW 35.92.460**

Utility fee or tax—Disclosure.

(1) Any city or town that operates its own water, sewer or wastewater, or stormwater utility and imposes a fee or tax on the gross revenue of such a utility shall disclose the fee or tax rate to its utility customers. Such disclosure shall include statements, as applicable, that "the amount billed includes a fee or tax up to (dollar amount or percentage) calculated on the gross revenue of the water utility; a fee or tax up to (dollar amount or percentage) calculated on gross revenue of the sewer or wastewater utility; a fee or tax up to (dollar amount or percentage) calculated on the gross revenue of the stormwater utility."

(2) The disclosures required by this section must occur through at least one of the following methods:

(a) On regular billing statements provided electronically or in written form;

(b) On the city or town's website, if the city or town provides written notice to customers or taxpayers that such information is available on its website; or

(c) Through a billing insert, mailer, or other written or electronic communication provided to customers or taxpayers on either an annual basis or within thirty days of the effective date of any subsequent tax rate change.

[2020 c 135 § 1.]

Recommended Tax Disclosure

Staff recommends following similar approach as Tacoma for tax disclosure



Wastewater

4.370@\$5.650000/ccf *

Fixed charge @\$30.09/month/dwelling

1511 S 54TH ST

\$24.69

\$30.09

Total

\$54.78

These taxes may be included in your wastewater service:

State B&O - 1.75%

Tacoma gross earnings - 8.0%

State sewer collection - 3.852%

* ccf charge based on city average winter water use.

This is proposed
to be reduced
from 18% to 16%
for the City of PT

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Portion of Utility
Revenue Currently
Subject to City Tax

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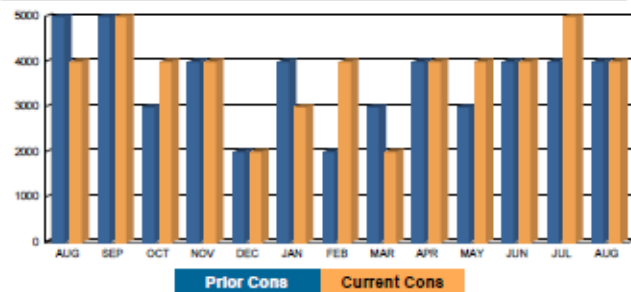
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Portion of Utility
Revenue Currently
Exempted from City Tax

estimated applicable State...
~ If not paid by the due date, a \$5.00 penalty or a
1-1/2% penalty, whichever is greater, will be added to the
account.

CURRENT CHARGES

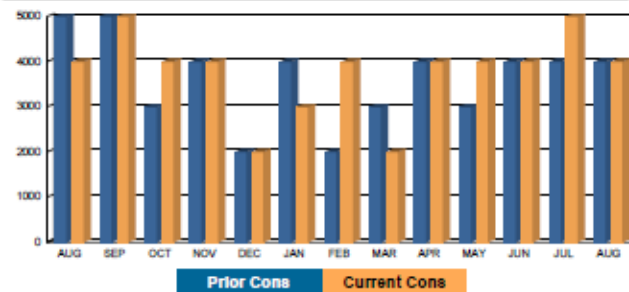
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2021 – Example Calculation

Sample Water/Wastewater/Stormwater (Assume 1,000 gallons consumption)

Water	\$ 24.45
Wastewater	\$ 67.74
Stormwater	\$ 8.33
Subtotal	\$100.52
Utility Tax (22.0%)	\$ 22.11
Capital Surcharge Water	\$ 22.00
Capital Surcharge Sewer	\$ 9.00
Capital Surcharge Stormwater	\$ 6.00
Total	\$159.66

2021 – Example Calculation

Sample Water/Wastewater/Stormwater (Assume 1,000 gallons consumption)

Water	\$ 24.45
Wastewater	\$ 67.74
<u>Stormwater</u>	<u>\$ 8.33</u>
Subtotal	\$100.52
Utility Tax (22.0%)	\$ 22.11
Capital Surcharge Water	\$ 22.00
Capital Surcharge Sewer	\$ 9.00
Capital Surcharge Stormwater	\$ 6.00
Total	\$159.66

This calculation approach was in error because not accounting for gross receipts

2021 – Example Calculation

Sample Water/Wastewater/Stormwater (Assume 1,000 gallons consumption)

Water	\$ 24.45
Wastewater	\$ 67.74
Stormwater	\$ 8.33
Subtotal	\$100.52
Utility Tax (22.0%)	\$ 22.11
Capital Surcharge Water	\$ 22.00
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Capital Surcharge Stormwater	\$ 6.00

Resulted in the utilities
owing the General Fund
additional tax dollars.

Total **\$159.66**

Corrected April 2022: Example Calculation

Sample Water/Wastewater/Stormwater (Assume 1,000 gallons consumption)

Water	\$ 32.19
Wastewater	\$ 85.08
Stormwater	\$ 10.52

Capital Surcharge Water	\$ 24.00
Capital Surcharge Sewer	\$ 9.00
Capital Surcharge Stormwater	\$ 6.00

Total	\$166.80
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Rate includes estimated 18% of gross receipts utility tax. Note, that the effective amount the customer pays is still approximately 22%

Looking Forward: Example Calculation

Sample Water/Wastewater/Stormwater (Assume 1,000 gallons consumption)

Water	\$ 32.19
Wastewater	\$ 85.08
Stormwater	\$ 10.52

Capital Surcharge Water	\$ 24.00
Capital Surcharge Sewer	\$ 9.00
Capital Surcharge Stormwater	\$ 6.00

Total **\$166.80**

Capital Surcharge Implies that this portion of the bill will go away at some time in the future.

Is this misleading given our infrastructure condition and needs?

Looking Forward Recommendation: Example Calculation

Sample Water/Wastewater/Stormwater (Assume 1,000 gallons consumption)

Water	\$ 58.26
Wastewater	\$ 91.06
Stormwater	\$ 16.91
Total	\$166.24

These taxes are included in your utility bill:

State B&O Tax – 1.75%

City Gross Earnings Tax – 16.0%

State Sewer Collection Tax – 3.852%

Looking Forward Recommendation: Example Calculation

Sample Water/Wastewater/Stormwater (Assume 1,000 gallons consumption)

Water	\$ 58.26
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Total	\$166.24

These taxes are included in your utility bill:

State B&O Tax – 1.75%

City Gross Earnings Tax – 16.0%

State Sewer Collection Tax – 3.852%

When tax rate is based on total revenues of the utility, the rate decreases.

Looking Forward Recommendation: Why Change

Consider the following reasons for changing the city approach for billing and calculating utility tax:

1. Simplicity in understanding utility bills.
2. Customer understanding of how tax impacts rates
3. Decreased tax rate results in better comparison to other cities and relative tax burden on residents.
4. Treats a gross receipts tax as intended. Tax is a cost of doing business and not a pass thru tax like sales tax.