

**Tax Division Proposal
Council Workshop 11/18/2014**

Staffing

Objective: Create and staff a Tax Division, to ensure that business licensing, B&O and other tax programs are administered effectively, efficiently and equitably among taxpayers.

Customer Service Representative \$77,800

- First line taxpayer support.
- Follow up with taxpayers on late, incomplete or missing returns and/or payments.
- Liaison between Customer Services and taxpayer.
- Process manual returns in on-line system.
- Enter refunds and assessments in JDE.
- Assist field auditors with administrative duties.

Desk Auditor \$96,575

- Second line taxpayer support.
- Perform audits of tax returns, including computation checks and verification of proper classification and reporting.
- Prepare refund requests, assess penalties and interest, and review penalty waiver requests.
- Review taxpayer accounts, update taxpayer records, make recommendations for possible field audits.
- Assist field auditors in gathering information for field audits.

The above work is currently being done by the field auditors and a part time employee. These dedicated "in-office" positions would free up the field auditors so that they can perform field audits.

Compliance Officer \$96,575

- Collect business license, home occupation and other regulatory license fees.
- Investigate business practices for conformity to the City's tax and license codes.
- Issue citations for noncompliance with tax and license code.
- Investigate complaints regarding suspected violations.

Business licensing is a foundation for administering business taxes. As such, a compliance officer is critical to ensuring all businesses are appropriately licensed and therefore creating a foundational level of equity amongst taxpayers.

Total Tax Division Staffing Request: \$270,950

Tax Division Proposal Council Workshop 11/18/2014

Tax Manager

- Modified proposal does not include a Tax Manager position (\$140,000); replace with an IT Project Manager/Business Analyst to help with B&O technology needs.
- Tax Division will continue to be managed by the Financial Planning Manager.
- While this proposal impacts the workload of the Finance management team, technology is a vital component and a higher priority than a dedicated Tax Manager.

Technology

Project Manager/Business Analyst

\$125,000

- Primary IT resource for B&O technology needs.
- Work with Tax Division to analyze outcomes of current study and determine path forward (i.e. integrate, build and/or buy)
- Augmented by other positions within IT, such as development work currently done by Sr. Systems Analyst. Overall IT support is in excess of \$125,000

Technology Path

- Process is nearly complete to document high level requirements of an effective B&O system.
- Kent's solution will require additional dollars, whether we integrate current systems, build our own system, or buy an off-the-shelf software product.
- Through conversations with the larger cities with B&O tax, we have discovered that they all use some form of homegrown system. There doesn't appear to be a readily available off-the-shelf solution.
- We continue to monitor progress of the FileLocal solution currently under development by four founding cities: Seattle, Bellevue, Everett and Tacoma.

Funding Source

The new positions, a total of \$395,950, will be fully funded by an increase in collection of tax revenue generated through increased compliance and audit activity.

Council 2015-2016 Preliminary Budget Questions/Requests

Q#	Date	Name	Question/Requests	Assigned to	Status
1	9/30	Ranniger	Foster inclusiveness: What more will be done to address community concerns regarding social justice and equity within the existing budget? Mtg: Mayor, Ranniger, Fincher	Mayor/Derek	Completed 10/8
2	9/30	Boyce Ralph	Impact from a taxpayer perspective: "how much will it cost me, how much more will I pay?" Request utility customer increased costs as well as taxpayer	Finance	Workshop 11/18
3	9/30	Boyce	What is current B & O staff doing?	Finance	Completed 10/14
4	9/30	Higgins	Request copies of the B & O rates proposal – handout	Finance	Completed 10/14
5	9/30	Higgins	Request B & O rates comparison to other cities – handout	Finance	Completed 10/14
6	9/30	Ralph	Request B & O revenue breakdown by category – handout	Finance	Completed 10/14
7	9/30	Berrios	Request to see what \$3.4 million B & O revenue is paying for.	Finance	Completed 10/14
8	9/30	Fincher	B & O – How many collected from? How are they collected? How are collections prioritized? How far down the list? What kind of businesses? Where was \$250,000 collected from? What steps are neighboring cities taking on collections?	Finance	Completed 10/14
9	9/30	Berrios	What is current protocol when a business applies for a liquor license but doesn't have a business license?	Finance	Completed 10/14
10	9/30	Higgins	Would like to pursue legislative change to allow DOR to give access to records	Derek/Michelle	Completed 10/14
11	9/30	Boyce	Requested review of Internal debt	Finance	Completed 10/7
12	9/30	Berrios	Request more discussion on Public Works allocations	Finance	To Be Determined
13	9/30	Ranniger	Why does Kent need a radio station? Concerned about sponsorship funding-how to get it up and running without investing City dollars.	Derek/Michelle	Workshop 11/18
14	9/30	Ralph	Where is the impact of each revenue increase (i.e. permit revenue)? Tied to question #2 above.	Finance	Completed 11/4
15	9/30	Higgins	Requested department budget presentations	Derek/Directors	Completed 10/21 and 10/28
16	10/1	Berrios	Does the council have the option to adopt a one-year budget, if desired?	Finance	Completed 10/8
17	10/9	Ralph	What is the impact on a typical homeowner if property tax banked capacity is used instead of B&O? – handout	Finance	Completed 10/14
18	10/9	Berrios	What is the maximum rate for each B&O category? - handout	Finance	Completed 10/14
19	10/15	Council via Derek	Provide additional information on Bellevue's contracted auditor arrangement	Finance	Workshop 11/18
20	10/21	Council via Derek	Provide examples of the impact of B&O threshold change to major business categories – tied to question #2 above.	Finance	Workshop 11/18
21	10/21	Council via Derek	Verify that \$1.6 million of General Fund streets/transportation costs are related to arterials (\$20 car tabs must be used on arterials)	Finance/PW	Completed 11/4
22	10/21	Council via Derek	Consider modifying financial policies – possible slowdown in building reserves	Finance	Completed 11/4
23	10/21	Ralph	Sustainability of revenues for the Tax Division?	Finance	Completed 10/21

Council 2015-2016 Preliminary Budget Questions/Requests

Q#	Date	Name	Question/Requests	Assigned to	Status
24	10/21	Council via Derek	Consider extending utility repayment period to 4 years (instead of 3)	Finance	Completed 11/4
25	10/21	Council via Derek	Explain 2014 to 2015 budget increase for Mayor/Administration	Finance/Derek	Completed 10/28
26	10/22	Council via Derek	Suggestion to send a letter to all 5,000 business licensees to ask them to set up B&O tax accounts	Finance	Workshop 11/18
27	10/22	Fincher	Request for HR to help Councilmember Fincher develop a proposal for race and social justice training	Lorraine	In Progress
28	10/24	Council via Derek	What is the net cost to increase the police parking enforcement position to full time?	Finance	Completed 11/4
29	10/24	Council via Derek	What is the net cost to make the police volunteer coordinator a permanent position?	Finance	Completed 11/4
30	10/24	Council via Derek	If revenue generation wasn't an issue, would Finance prefer tax audit positions or financial analysts?	Finance	Completed 11/4
31	10/24	Council via Derek	How many vacant positions do we have and what's the impact on the 2014 budget?	Finance	Completed 11/4
32	10/24	Council via Derek	What is the net cost of the senior center?	Finance	Completed 11/4
33	10/28	Ralph	Clarify \$913,888 annual cost in Administration (on page 67)	Finance	Completed 11/4
34	10/28	Ralph	Provide additional details for the increase between 2015 and 2016 in the insurance funds.	Finance	Completed 11/4
35	10/28	Fincher	How much more would it cost to make the .6 non-benefitted Admin Sec requested by ECD a benefitted .75 FTE?	Finance	Completed 11/4
36	11/4	Ralph	What revenues are generated by the parking enforcement position?	Finance	Workshop 11/18
37	11/4	Thomas	Provide a breakdown of revenues and expenses for the Senior Center	Parks	Workshop 11/18
38	11/4	Berrios	Provide 2014 Budget and Estimated for the Senior Center	Parks	Workshop 11/18
39	11/13	Council via Derek	Provide a list by department of job classifications, including # FTEs and 2015-16 base salary budget for each classification.	Finance	Workshop 11/25
40	11/14	Council via Derek	Has IT programmed and/or spent the million dollars it didn't know about earlier this year?	Finance	Email by 11/25
41	11/14	Council via Derek	Can drug seizure funds be used for jail capital work? Are there excess funds available?	Finance	Email by 11/25
42	11/14	Council via Derek	What's our vehicle replacement schedule?	Finance	Email by 11/25
43	11/14	Council via Derek	Where is the revenue from cell-tower leases going?	Finance	Email by 11/25
44					
45					

**Responses to Council Budget Questions
11/18/2014 Workshop**

Question #2

What is the impact of the Mayor’s Proposed Budget from a taxpayer and utility customer perspective?

Response:

Revenue	Impact
Property Tax – 1%, plus new construction over 2014 budget	de minimus impact, see Exhibit A Note: Property Tax Levy is due to King County on or before 12/5/2014.
Internal Utility Tax – 1%	No impact – internal utility tax is not passed on to utility customers
Other Taxes (sales, utility, gambling, admissions)	No impact – rates remain constant, tax collected based on purchases, consumption and usage
Sewer Rates KC Metro portion= 5.4% Kent portion = 4%	\$2.24 KC Metro portion <u>\$0.72</u> Kent portion \$2.96 Monthly Increase (single family dwelling)
B&O Tax – rate increase M&R - .00046 to .001 W&S - .00152 to .002	Manufacturing & Retailing: \$1,000 currently owed becomes approximately \$2,170, excluding square footage Wholesaling & Service: \$1,000 currently owed becomes approximately \$1,315, excluding square footage
B&O Tax – threshold chg \$250k exemption to \$150k threshold	Manufacturing & Retailing: \$0-\$115 annually, excluding square footage Wholesaling & Service: \$0-\$380 annually, excluding square footage See Question #20 for additional details

Question #19

Provide additional information on Bellevue’s contracted auditor arrangement.

Response:

Details of this arrangement are:

- Cost: \$70 per hour for an estimated 700 hours, not to exceed \$50,000 annually
- Scope of services: Perform audits of books and records of businesses to determine compliance with the tax chapters of the Bellevue City Code. The consultant prepares a summary of tax adjustments, which is provided to Bellevue’s Tax Division for issuance of a tax assessment or credit.

Responses to Council Budget Questions 11/18/2014 Workshop

Question #20

Provide examples of the impact of B&O threshold change to major business categories.

Response:

Examples of impact on Manufacturing and Retailing (.00046 rate) taxpayers are:

Taxpayer with Gross Receipts of:	Tax Owed Current 250K Exemption	Tax Owed Proposed 150K Threshold	Change in Tax Owed
\$150,000.00	\$0.00	\$0.00	\$0.00
\$150,000.01	\$0.00	\$69.00	\$69.00
\$250,000.00	\$0.00	\$115.00	\$115.00
\$500,000.00	\$115.00	\$230.00	\$115.00

Examples of impact on Wholesaling and Service (.00152 rate) taxpayers are:

Taxpayer with Gross Receipts of:	Tax Owed Current 250K Exemption	Tax Owed Proposed 150K Threshold	Change in Tax Owed
\$150,000.00	\$0.00	\$0.00	\$0.00
\$150,000.01	\$0.00	\$228.00	\$228.00
\$250,000.00	\$0.00	\$380.00	\$380.00
\$500,000.00	\$380.00	\$760.00	\$380.00

The examples above **do not include**:

- **Deductions and/or credits**, which vary significantly from business to business
- **Square footage**, which could result in additional tax owed depending on the physical size of the business

Implementation Considerations

Converting to a threshold represents a significant body of work for Finance and IT. However, as challenging as it will be in the short term, we believe that if the city moves to a threshold, it should be done sooner rather than later to minimize the number of years with an exemption. Further, a threshold is consistent with DOR and nearly every other city in the state that has a B&O tax. The following table shows the high level tasks and timeline required to complete the changes for Q1 2015.

Task	Who	Timeframe
Update tax return, Schedule A and taxpayer instructions; define threshold calculation	Tax Division	mid-December thru mid-January
Apply changes to paper forms and create fillable PDF versions	Multimedia	mid-late January

**Responses to Council Budget Questions
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Task	Who	Timeframe
Apply changes to: <ul style="list-style-type: none"> ▪ on-line return, includes coding, testing calculations and screen layout changes ▪ make changes to B&O FormViewer and BOAccounts tools to support new returns and schedules ▪ regression testing 	IT Systems	February
Taxpayer outreach to inform of changes to returns and threshold	Tax Division	February-March
Testing changes and calculations to forms and tools.	Tax Division Customer Svc	early-mid March
Bug fixes	IT Systems	mid-March
Retesting bug fixes	Tax Division Customer Svc	late-March
Available to taxpayers for Q1 2015 reporting		April 1, 2015

Question #26

Suggestion to send a letter to all 5,000 business licensees to ask them to setup B&O tax accounts.

Response:

Staff does not recommend sending the suggested letter to all business licensees. Approximately 2,800 of these businesses have already setup a B&O tax account. Such a letter has the potential to cause significant confusion among this group of taxpayers, and therefore is something we do not recommend.

In May 2013, staff manually matched business licenses with taxpayers who had set up accounts for B&O tax. This exercise resulted in a list of licensees who did not have a B&O account, to which the following targeted letters were sent.

- **First Notice – June 10, 2013**
Sent to approximately 2,800 businesses, requesting that, if subject to B&O tax, they file tax returns to avoid penalties and interest charges.
This notice generated approximately 1,200 phone calls in the three weeks following the letter.
- **Second Note – July 8, 2013**
Sent to approximately 1,800 businesses, similar to the first notice and also stated the Finance Director would waive late filing penalties for Q1 2013 as long as the returns were filed by July 31, 2013.
This notice generated approximately 1,400 phone calls in the four weeks following the letter.
- **Third Notice – August 18, 2013**

Responses to Council Budget Questions 11/18/2014 Workshop

Sent to approximately 1,800 businesses, similar to the first notice.

This notice did not generate a noticeable increase in phone calls.

While the notices generated significant phone calls, questions, and accounts setup, it did not substantially increase the number of returns received.

Staff Alternate Proposal

As suggested by several council members, staff is compiling an updated list of licensees who do not have a B&O account. Once the list is finalized, we will send another series of reminder letters in Q1 2015.

Please note that we do not expect that all licensees on the list are subject to B&O tax. As such, we are working with IT to implement a method in KIVA to better identify those licensees, so they can be easily excluded in future mailings.

Question # 36

What revenues are generated by the parking enforcement position?

Response:

Year	Revenue Budget	Revenue Actual	Expense Actual	FTE
2010	88,860	45,099	46,879	.75
2011	70,000	69,801	48,644	.75
2012	70,000	73,774	49,578	.75
2013 *	70,700	56,720	31,802	.75
2014 **	71,407	70,126	58,214	.75

* parking enforcement position vacant March 1 – June 15, 2013

** estimated actual

Questions #37-38

Provide a breakdown of revenues and expenses for the Senior Center. Provide 2014 budget and estimated actuals for the Senior Center.

Response:

See Exhibit B, prepared by Parks, Recreation & Community Services staff.

Note: Expenditures charged to Annexation for 2011-2013 were inadvertently omitted from the information provided at the 11/4/2014 workshop. The attached exhibit includes these amounts.

CITY OF KENT PROPERTY TAX SHARE ONLY

<u>2014 Kent Budget</u>			<u>2015 Kent Budget</u>	
\$12,598,985,207		Valuation		\$13,851,171,820
\$12,598,985		Valuation divided by 1,000		\$13,851,172
<u>\$20,527,820</u>		Assumed Revenue		<u>\$20,808,100</u>
1.62932		Estimated Levy (millage) Rate		1.50226
		Assessed Valuation Increase		9.9%
<hr/>				
\$300,000		Assessed Value		\$330,000
\$489		Levy Amount		\$496
		Increase Over 2014		\$7
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\$500,000		Assessed Value		\$550,000
\$815		Levy Amount		\$826
		Increase Over 2014		\$11
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Note: Property Tax Levy is due to King County on or before 12/5/2014.

Exhibit B

Table 1. Net Cost of Senior Center as presented at Council Workshop on 11/4/2014

	2011 Actual	2012 Actual	2013 Actual	2013 Budget	2014 Estimate	2015 Prelim	2016 Prelim
Revenue	460,107	593,370	472,179	n/a	453,625	458,170	458,170
Expense*	1,245,259	1,367,751	1,214,222	n/a	1,409,270	1,440,745	1,474,377
Net Cost	785,152	774,381	742,043	n/a	955,645	982,575	1,016,207

Table 2. Net Cost of Senior Center adjusted - to include annexation expense for years 2011-2013 and added 2013 budget for comparison

	2011 Actual	2012 Actual	2013 Actual	2013 Budget	2014 Budget	2015 Prelim	2016 Prelim
Revenue	460,107	593,370	472,179	454,353	453,625	458,170	458,170
Expense*	1,363,019	1,488,607	1,338,019	1,375,979	1,409,270	1,440,745	1,474,377
Net Cost	902,913	895,237	865,840	921,626	955,645	982,575	1,016,207

*Expense change from Table 1 vs Table 2 is due to annexation expenses.

Table 3. Detailed Transactions by major type & 2013 actuals vs budget comparison

	2011 Actual	2012 Actual	2013 Actual	2013 Budget	2014 Budget	2015 Prelim	2016 Prelim	2013 Act vs 2013 Budget
Revenue								
Cash Adj - Other/Short/NSF/JD	13	79	(42)	-	-	-	-	(42)
Contributions/Donations	8,564	13,134	9,050	13,126	8,207	8,207	8,207	(4,076)
Rentals	43,873	66,039	63,691	43,575	43,980	48,525	48,525	20,116
Sr Center-Meals	101,391	102,107	100,018	94,609	95,555	95,555	95,555	5,409
Sr Center-Program Fees	92,992	95,702	94,757	91,416	92,330	92,330	92,330	3,341
Sr Center-Rec Trips	213,275	208,294	217,346	211,627	213,553	213,553	213,553	5,719
Subtotal Operating Revenues	460,107	485,354	484,821	454,353	453,625	458,170	458,170	30,468
Expenditure								
Regular Salaries/Wages	398,277	401,798	404,345	386,655	401,893	411,328	420,887	17,690
Temporary Help	28,994	28,349	24,546	24,542	24,542	27,229	27,229	4
Benefits	158,566	171,689	179,719	186,370	182,772	192,972	201,710	(6,651)
Overtime	-	-	117	-	-	-	-	117
Licenses/Permits/Fees	892	921	911	840	857	1,391	1,404	71
Other Charges for Services	739	592	380	774	794	802	810	(394)
Congregate Meals	107,400	107,928	107,512	113,401	115,669	117,404	119,165	(5,889)
Other Program Expense	62,561	67,510	63,896	80,485	82,070	83,301	84,551	(16,589)
Recreation Trips	167,884	163,812	168,396	170,647	174,060	173,539	173,539	(2,251)
Supplies	25,572	18,228	25,933	42,208	37,905	38,418	38,938	(16,275)
Taxes	472	527	486	430	438	444	450	56
Travel/Training	780	620	484	1,254	1,299	1,299	1,299	(770)
Reserves	3,046	3,107	6,349	6,349	8,560	9,844	11,321	(0)
Internal Service	407,837	428,153	354,944	362,024	378,411	382,774	393,074	(7,080)
Subtotal Operating Expenses	1,363,019	1,393,233	1,338,019	1,375,979	1,409,270	1,440,745	1,474,377	(37,960)
Net Operating (Cost)/Income	(902,913)	(907,879)	(853,199)	(921,626)	(955,645)	(982,575)	(1,016,207)	68,427
Recovery Ratio/Actuals	33.76%	34.84%	36.23%	n/a	n/a	n/a	n/a	n/a
One-time Items								
Wiona Estate Donation - Rev	-	108,016	(12,642)	-	-	-	-	(12,642)
Wiona Estate Donation - Exp	-	95,374	-	-	-	-	-	-
Net One-time Items	-	12,642	(12,642)	-	-	-	-	(12,642)
Total Revenues	460,107	593,370	472,179	454,353	453,625	458,170	458,170	17,826
Total Expenses	1,363,019	1,488,607	1,338,019	1,375,979	1,409,270	1,440,745	1,474,377	(37,960)
Net (Cost)/Income for GF	(902,913)	(895,237)	(865,840)	(921,626)	(955,645)	(982,575)	(1,016,207)	55,786

CRIMINAL JUSTICE OPERATING FUND

2014 Estimated Actual as of October 31, 2014

	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Budget	2014 Est Actual	2015 Prelim	2016 Prelim
BEGINNING FUND BALANCE	1,007,268	12,737	(737,912)	327,985	650,437	1,057,804	1,057,804	917,320	665,917
Revenues									
Sales Tax - Local Option	1,718,413	1,699,025	1,847,825	1,924,193	2,077,598	1,942,648	2,176,431	2,116,152	2,137,314
State Shared Rev - Crim Justice	367,723	220,063	300,510	224,975	192,792	184,883	159,388	201,053	201,556
Interest Income	2,718	0	0	280	597	200	329	200	200
Transfer In from General Fund			980,000						
Total Revenues	2,088,854	1,919,088	3,128,335	2,149,448	2,270,987	2,127,731	2,336,148	2,317,405	2,339,070
Expenditures									
Law - Prosecutors/DV	943,930	856,396	894,278	739,800	718,492	775,134	773,814	829,117	854,280
KYFS - Youth Violence Program	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Police	1,897,955	1,771,841	1,126,660	1,045,696	1,077,016	1,646,108	1,646,057	1,698,191	1,715,925
Vehicles/Forensic Hardware								(79,000)	(59,000)
Ballistic Vest Replacement								22,600	22,600
Taser Replacements								36,450	36,450
Pursuit Equipment & Training								12,000	12,000
Professional Services								6,913	6,913
Existing Costs from General Fund								33,055	33,055
Transfer to Police Programs	216,500	16,500	16,500	16,500	43,112	16,500	16,500	16,500	16,500
Total Expenditures	3,083,385	2,669,737	2,062,438	1,826,996	1,863,620	2,462,742	2,461,371	2,600,826	2,663,723
Change In Fund Balance	(994,531)	(750,649)	1,065,897	322,452	407,367	(335,011)	(125,223)	(283,421)	(324,653)
ENDING FUND BALANCE	12,737	(737,912)	327,985	650,437	1,057,804	722,793	932,581	633,899	341,264

POSITION HISTORY

Law - Funded	8.25	8.95	8.95	7.6	6.8	6.8		6.8	6.8
Police (civilian) - Funded	2	2	2	2	3	3		3	3
Police (commissioned) - Funded	14	14	7	7	7	9		9	9
Subtotal	24.25	24.95	17.95	16.6	16.8	18.8		18.8	18.8
Police (commissioned) - Frozen **			7	7	6				
Total	24.25	24.95	24.95	23.6	22.8	18.8		18.8	18.8

** 1 frozen position moved to GF in 2013; 2 frozen positions CJ funded in 2014; remaining 4 frozen positions moved to GF in 2014

ECONOMIC & COMMUNITY DEVELOPMENT DEPARTMENT

2015-16 Permit Revenue Proposal

Additional Permit Revenue based on Permit Volume: \$212,000

Explanation: ECD is projecting an increase of approximately \$212,000 (3.7%) in permit volume for 2015 which will carry over to 2016. We expect this to occur across-the-board with revenue increasing from all sources of permitting.

Additional Permit Revenue based on Permit Fee Increase: \$188,000

Explanation: ECD is also proposing a slight increase in permit fees totaling approximately \$188,000 for 2015. In order to achieve a more equitable 80% cost recovery, these fees would be applied differently according to type of permit. ECD would recommend the following general increases:

• Fire development fees (10% increase)	\$68,000
• Development Engineering fees (5% increase)	\$60,000
• Building permit fees (2% increase)	<u>\$60,000</u>
Total:	\$188,000
Less amount no longer available from Covington Fire Contract	<u>(\$52,000)</u>
Net Increase to Preliminary Budget	\$136,000