



**A STRONGER
VANCOUVER**
Investing in our future

DATE: February 13, 2020

TO: Anne McEnerny-Ogle, Mayor
City Council

FROM: Eric J. Holmes, City Manager

RE: **A Stronger Vancouver – finalizing the package | designing the levy**

Executive Summary

The February 24 workshop is intended as an opportunity for Council to:

- Finalize the overall package and associated revenues.
- Establish direction on the levy design.
- Review revenue phasing approach.

Background

At the February 10 session, Council requested three levy options based on direction to date be returned for continued discussion. These are:

- **Option 1 - Excess levy for capital:** this scenario would include two separate ballot measures, one for a voter approved 20 year excess bond levy for capital and a companion levy lid lift for voter approved operations and maintenance.
- **Option 2 - Levy lid lift:** This scenario would include two separate ballot measures on the same ballot, one for a levy lid lift to support a 9 year debt issue for capital and a companion levy lid lift for voter approved operations and maintenance.
- **Option 3 - One year permanent Levy Lid:** This scenario would be a single levy lid lift ballot measure to fund both capital using a combination of pay as you go and debt techniques as well as include operations and maintenance costs for new constructed capital.

A comparison of each scenario are included below:

	<u>Option 1</u>	<u>Option 2</u>	<u>Option 3</u>
Total Annual Amount Generated, Capital	<u>\$13.9 mil</u>	<u>\$8.1 mil</u>	<u>\$8.1 mil</u>
Total Annual Amount Generated, Operating	<u>\$5.6 mil</u>	<u>\$5.6 mil</u>	<u>\$5.6 mil</u>
Capital Levy Lid Lift 9 yr	\$0.54		
Excess Levy: Capital Bond, 20 yr		\$0.31	
Levy Lid Lift: Capital + Operating Permanent			\$0.53
Levy Lid Lift: Operating - maintaining capital projects	0.054		
Levy Lid Lift: Operating- Program Funding	\$0.16	\$0.22	
Total levy per \$1,000 AV, 2021	\$0.76	\$0.53	\$0.53
<i>Annual Impact on an owner of a \$350,000 House</i>	<i>\$265.10</i>	<i>\$186.04</i>	<i>\$186.04</i>
<i>Monthly Impact on an owner of a \$350,000 House</i>	<i>\$22.09</i>	<i>\$15.50</i>	<i>\$15.50</i>

In addition to the levy design considerations, Council may wish to consider outcomes in the event of a levy not passing at ballot.

The latest direction from council distributes the operating costs associated with new capital to the future levy. In addition, all or a portion of other programs that are included in the package are included in the levy, as follows:

	Levy	Council manic
Economic Vitality		
Homelessness		
Day Center and HART		\$1.7
Shelter	\$1.4	
District Plans & Implementation	\$0.3	\$0.3
Pedestrian, bike, art & culture		\$0.8
Public Safety		
EMS Rescue units	\$1.3	\$1.0
Problem Oriented Policing	\$1.0	
Safe Streets, Fire Prevention		\$1.2
Neighborhood Vibrancy (includes O&M parks)	\$1.6	\$3.4
TOTAL FUNDING, PROGRAMS	\$5.6	\$8.4

Under Options 1 & 2, it is possible that the capital funding ballot item may pass and the levy lid lift for operations, maintenance and programs may not, or vice versa. If Council pursues Option 1 or 2 and a capital levy passes but O & M does not – or the inverse – it may complicate the City’s ability to deliver on either.

With respect to an excess levy or levy lid lift, the Council may also wish to consider recent history of municipal ballot titles across the state. Each community is unique relative to values and expectations of their electorate; that said, according to research compiled by MRSC the results of municipal (city) ballot measures state-wide in the last 5 years were:

Levy Lid Lift:

All levy lid lift types: 37 measures; 30 pass, 7 fail (81% passage rate)

Multiple purpose: 9 measures; 6 pass, 3 fail (66% passage rate)

Excess Bond Levy

All bond types: 27 measures; 16 pass, 11 fail (59.2% passage rate)

Multiple purpose: 6 measures; 4 pass, 2 fail (66% passage rate)

The full, searchable database can be found [at MRSC’s website here](#).

Revenue Phasing

The original recommendation to Council from the Executive Sponsors Council suggested that key revenues be phased in over three years. The Council has given direction on Park Impact Fee Phasing, but had no other specific discussion regarding phasing. Staff work and analysis has assumed phasing consistent with the original recommendation.

Structural Deficit

At the February 10 work session, the Council had some discussion regarding the structural deficit and the role the Stronger Vancouver initiative plays in responding to that forecasted deficit.

The term structural deficit refers to the fact that the City's general fund revenues do not consistently grow at a rate that is sufficient to keep pace with the growth in demand for services from new population and inflation. This is due to both the structural (statutory) limits of the taxing structure as well as the structural and practical limits to the City limiting its costs. As a result, year over year the real per capital revenue to the City's general fund declines while the cost of services increases. The primary contributing factors since 1990 are:

- The phase out of local business and occupation tax taxes between 1992 and 2001.
- Statewide tax initiatives in the late 1990s and early 2000s (I-695: \$30 Car Tab Limitation and I-747: 1% property tax limitation)
- A tightening of the state budget resulting from Initiative-driven revenue impacts and mandates on the state
- Our adjacency to a sales tax free state and the resulting lower per-capital sales tax revenues than other comparable communities.
- The legacy impacts of the Great Recession.
- Growth in population and associated demand for services.

To illustrate the structural challenges of the of the revenue system, consider the City's property tax. In 2019 this revenue accounted for nearly 30% of all general fund revenues and was the single largest source of revenue for the general fund. Since 2012, the City's total assessed value of its property tax base has increased by 84%, including robust new construction during these years. The resulting new revenues from this 7 years of growth in the tax base equates to a 7.7% revenue increase to the general fund as a whole, while over the same time period cumulative inflation was 20.5% and population growth totaled 13.4%.

This is representative of dynamics that have influenced the City over time. The City has focused on efficiency, effectiveness, evolving the service delivery model, retiring debt, using one time revenues for one-time expenses, prioritizing services and focused increases in revenues – such as for police or streets - to continue to maintain operations within these constraints.

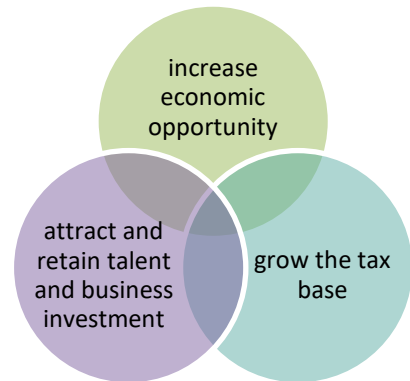
The Stronger Vancouver initiative is premised on a belief that we can build on Vancouver's commitment to effectiveness, recent progress and current stability to realize our vision for a brighter future for our community: safer streets and neighborhoods, move vibrant business districts, and with the opportunities of a growing economy that are shared by all.

Economic Development

At the February 10 workshop, Council had considerable discussion regarding what role the return on investment (ROI) from new economic development projects plays in addressing the structural deficit.

The city invests in economic development for multiple reasons:

- to increase economic opportunity for our citizens
- To support creation of a distinct sense of place that attracts and retains talent and additional business investment.
- To increase the tax base and resulting tax revenues.



New economic development projects in the City do increase the tax base and as a result contribute to a multi-faceted approach to supporting and sustaining city services to meet the demands of a changing community. This is in part why the Council earlier in earlier deliberations removed the B & O tax from consideration as a way to maintain the competitiveness of Vancouver's business climate.

However, because of the aforementioned attributes of the revenue system, economic growth alone is not sufficient to address the structural deficit. As discussed at the work shop, the city primarily taxes consumption (through utility tax or sales tax) instead of business activity (such as through a business and occupation tax). Consequently, the approximately 32% increase in private employment (and related economic activity) Vancouver has seen since 2012 – while excellent for our residents and our economy as a whole – does not translate into an equivalent revenue increase.

Supporting economic development in a manner that is contemplated in the Stronger Vancouver package is an important component of a strategy to increasing economic opportunity for our citizens, retaining and attracting and retaining talent and business investment and growing the tax base. It is also a significant component of a long term strategy to address the structural deficit, but not a solution unto itself.

Other resources

In addition to the above and presentation materials, linked below for your reference and in support of Council's discussion are:

- [Washington State Department of Revenue Ballot measure requirements](#)
- The [MRSC Revenue Guide for Cities](#).