

City of Tukwila Financial Overview

Tukwila Financial Sustainability Plan | January 2024

Running List of Updates

Since first publication in December 2023, the following edits have been made in this document:

- Exhibit 3, which shows property tax revenue by property type, has a corrected title and source, and an additional statement regarding tax exempt properties.
- Exhibit 8, which shows business license fees for Tukwila and peer cities, has been corrected.
- Exhibit 10 and Exhibit 11 were updated to include information for the 2023 budget.

Overview

This document provides an overview of the City of Tukwila’s revenue tools, comparisons to revenue tools in peer cities, General Fund budget trends, and staffing levels. This information can be used to provide a basis for understanding the City’s financial status and to guide the City’s financial sustainability plan.

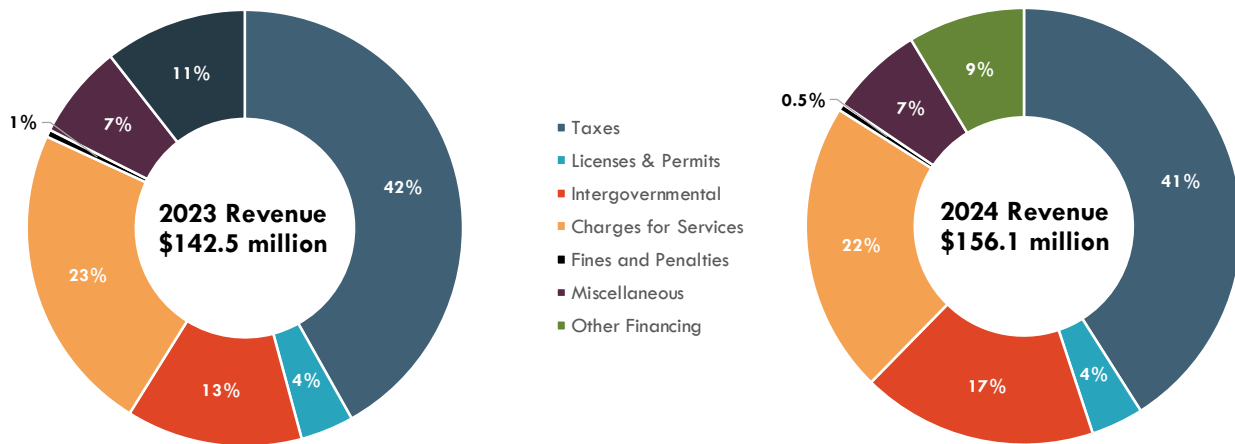
Key Points

- The City collects different types of revenues from different groups, such as residents and businesses.
- Tukwila’s total property tax rate is similar to peer cities in King County. Compared to peer cities, Tukwila has a lower business and occupation tax rate.
- The cities of Burien and Lynnwood collect additional revenues from transportation benefit district charges, which are not currently used by Tukwila.
- General Fund revenues decreased significantly at the onset of the pandemic and increased as the economy began to recover. As part of the budget and budget amendment processes, the City aligns service levels to match expenditures with available revenues.
- As a service provider, the City spends the largest percentage of General Fund expenditures on salaries and benefits. Labor costs are driven by the regional employment market and City policies.
- Total City staffing has decreased slightly since 2016, during which time the City’s population has continued to grow.
- Increased service needs and the growing cost of providing existing services will impact the City’s financial forecast.

Revenue Tools

Exhibit 1 shows the City’s budgeted revenue mix across all funds in 2023 and 2024. Taxes are the largest category of revenue, followed by fees which include charges for service, licenses, permits, fines, and penalties. The City also receives intergovernmental revenues, such as state and federal grants, and other financing, such as sale of capital assets and internal fund transfers.

Exhibit 1: Tukwila Revenue Mix for All Funds, 2023-2024



Sources: BERK, 2023; City of Tukwila, 2023.

Most **taxes** support all government functions and are not tied to a particular service. Some taxes are collected for a specific purpose or are restricted by State law. **Fees** are related to the cost of the service provided and are paid by the person using the service. To illustrate the difference, all property owners pay property tax, and the amount does not depend on how much a resident uses City services. Property owners only pay permit fees if applying for a permit and the fee is intended to offset all or a portion of the cost of providing the service. Utility rates, which are categorized as a **charge for service**, support operating and capital needs for the utility. These are paid by customers of the utility and may be based the type of customer or consumption.

Exhibit 2 lists examples of the City’s major revenue collections, who pays them, how they are used, and the 2024 budgeted amount from all funds. Some revenues are collected from multiple groups, such as residents and businesses, and some are collected from only one group, such as users of a service or just businesses. The revenues listed do not include all revenues collected by the City but include the City’s largest sources or the most common taxes, fees, and rates paid by members of the community.

Exhibit 2: Examples of Tukwila Major Revenue Sources with Groups Impacted and Uses

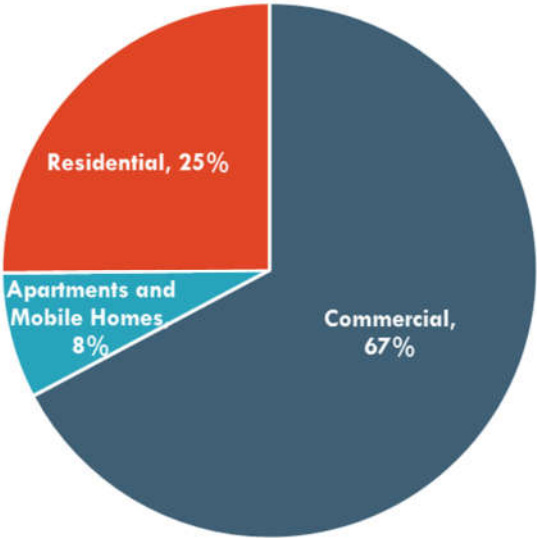
Revenue Source	Received From	Use of Revenue	2024 Budget
Taxes			
<i>Property Tax</i>	Residents, businesses	General operations	\$23.1 million
<i>Retail Sales Tax</i>	Residents, visitors	General operations	\$21.4 million
<i>Utility Tax</i>	Private utility providers	General operations, though a portion of solid waste tax revenue is dedicated to streets projects	\$5.6 million
<i>Business & Occupation Tax</i>	Businesses	General operations	\$3 million
<i>Gambling and Admissions Tax</i>	Visitors to gambling/entertainment venues	Gambling tax must first be used for public safety	\$5.4 million
<i>Commercial Parking Tax</i>	Businesses that charge a fee for parking	Transportation purposes	\$600,000
Fees			
<i>Business License Fees</i>	Businesses	General operations	\$3.2 million
<i>Impact Fees</i>	Developers	Capital improvements	\$900,000
<i>Parks & Recreation Activity Fees</i>	Users of parks & recreation programs	General operations	\$1.6 million
<i>Building Permit Fees</i>	Residents, organizations, businesses	General operations	\$1.7 million
Utility Rates			
<i>Water Utility Charges</i>	Residents, businesses	Water operations and capital; cannot be used for general fund operations	\$8.2 million
<i>Sewer Utility Charges</i>	Residents, businesses	Sewer operations and capital; cannot be used for general fund operations	\$11.1 million
<i>Surface Water Utility Charges</i>	Residents, businesses	Surface water operations and capital; cannot be used for general fund operations	\$8.1 million

Note: 2024 budgeted revenue amounts are from all City funds. The City dedicated some of the Business & Occupation tax to restoring police positions that had been frozen during the pandemic.

Sources: BERK, 2023; City of Tukwila, 2023.

Property tax is a large source of revenue for the City. Over two-thirds of the City’s property tax revenue comes from commercial property and one quarter comes from residential property (Exhibit 3). This accounts for exemptions or properties paying reduced or no property taxes. Exemptions distribute the burden of tax payments differently than would be without exempt property.

Exhibit 3: Property Tax Revenue by Property Type, 2023



Notes: Limited to commercial and residential property types. Commercial properties with non-zero residential units are classified as apartments and mobile homes.

Source: BERK, 2023; King County Assessor’s Office, 2023.

Comparison to peer cities

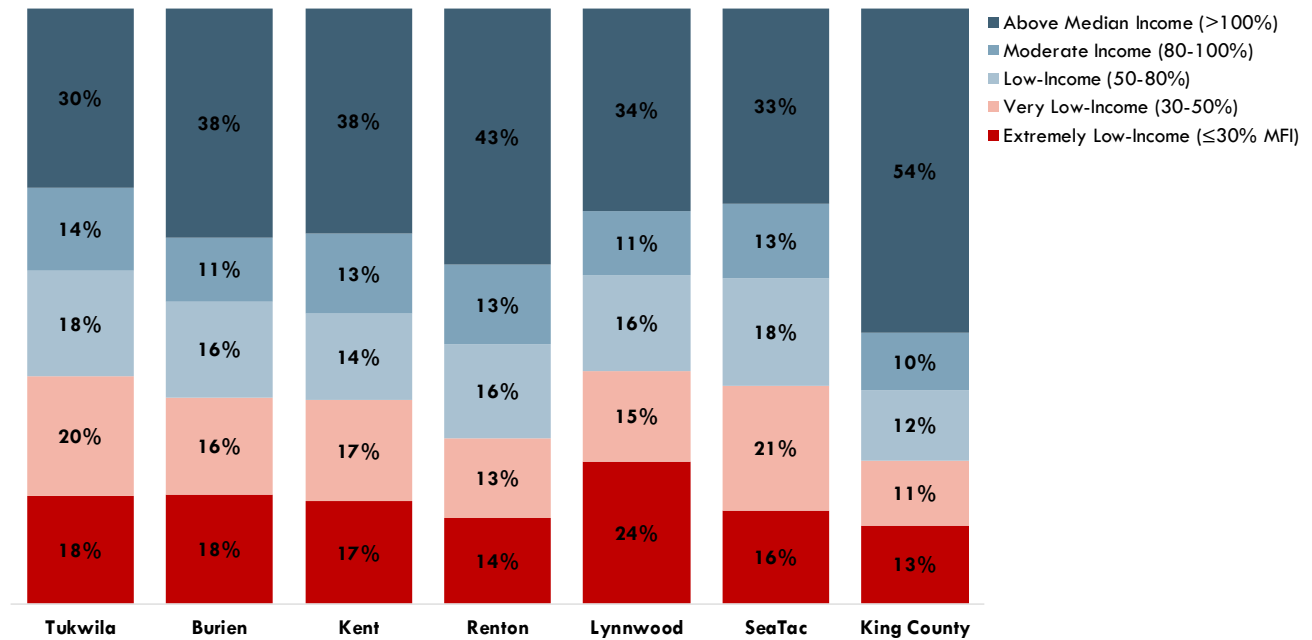
The peer group in this analysis includes the City of Burien, City of Kent, City of Lynnwood, City of Renton, and City of SeaTac. These cities are near Tukwila, serve similar populations, and in the case of Lynnwood (located in Snohomish County) also have a large shopping center. Exhibit 4 shows that Tukwila and peer cities generally have a higher share of the population than King County that is Black or African American, Asian, and Hispanic or Latino. Exhibit 5 shows that Tukwila and peer cities have a greater share of the population than King County that is below the area median family income.

Exhibit 4: Racial Composition of Tukwila, Peer Cities, and King County, 2021

	Tukwila	Burien	Kent	Lynnwood	Renton	SeaTac	King County
Population	21,545	51,646	134,890	38,812	105,313	30,867	2,240,876
White alone	33%	53%	43%	58%	48%	38%	61%
Black or African American alone	19%	9%	12%	9%	8%	22%	6%
American Indian and Alaska Native alone	1%	0%	0%	0%	1%	1%	1%
Asian alone	24%	15%	22%	17%	24%	14%	19%
Native Hawaiian and Other Pacific Islander alone	4%	1%	2%	0%	1%	3%	1%
Some other race alone	13%	13%	10%	4%	6%	14%	4%
Two or more races	6%	9%	10%	12%	11%	8%	9%
Hispanic or Latino	18%	23%	16%	14%	16%	22%	10%
Not Hispanic or Latino	82%	77%	84%	86%	84%	78%	90%

Source: US Census Bureau, 2017-2021 American Community Survey 5-Year Estimates.

Exhibit 5: Households by Median Family Income in Tukwila, Peer Cities, and King County, 2020



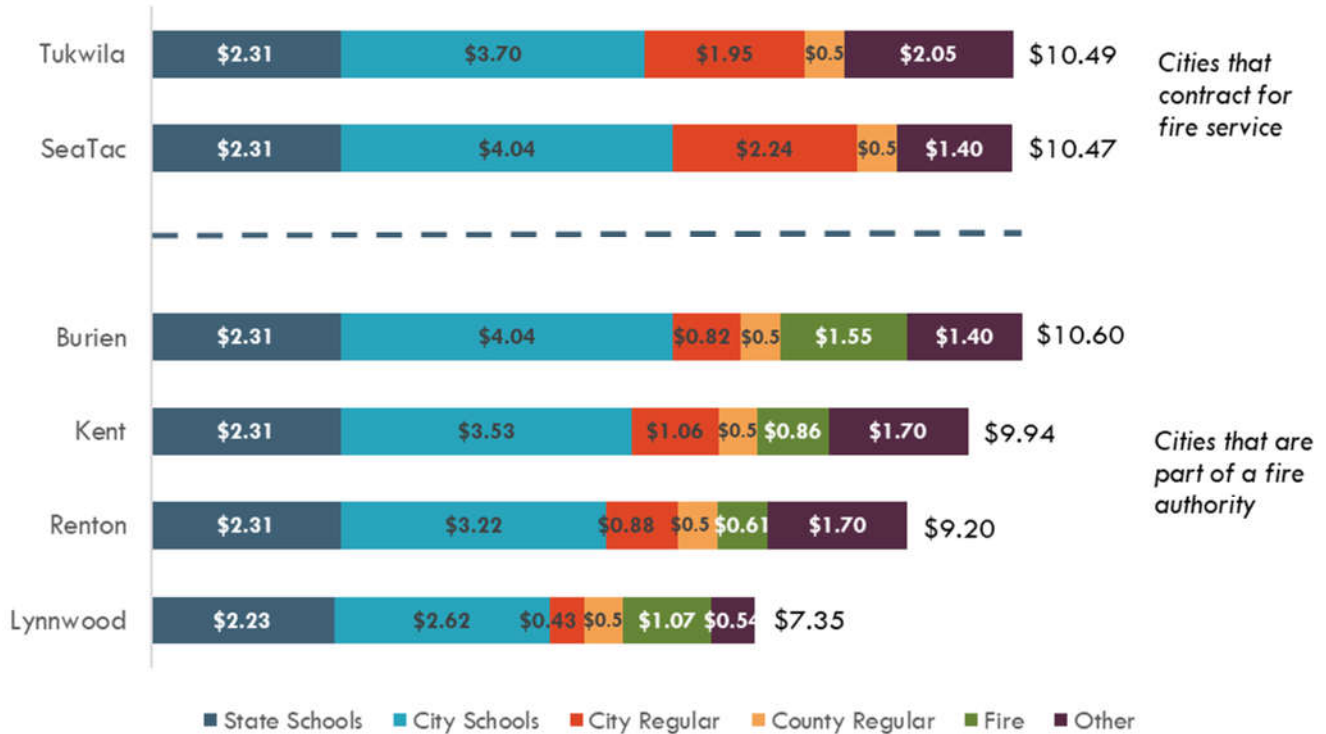
Note: Median family income refers to the HUD Area Median Family Income for the Seattle-Tacoma-Bellevue Metropolitan Statistical Area, which is adjusted based on household size.

Source: US HUD Comprehensive Housing Affordability Strategy (CHAS) data, 2016–2020.

Exhibit 6 compares property tax rates for Tukwila and peer cities. The total property tax is similar for Tukwila and peer cities in King County. Tukwila and SeaTac both pay for fire services through a contract, so use local property tax revenue to pay for this and have a higher city levy rate. The other cities are annexed into a fire district, so do not collect property tax revenue to pay for fire service. Across all peer cities, a large share of property tax goes to other taxing districts.

Exhibit 7 and Exhibit 8 compare the business and occupation tax rate and business license fee in Tukwila and peer cities. Tukwila has the lowest business and occupation tax rate. Tukwila’s business license fee is per full-time employee. Lynnwood also assesses a per employee fee in addition to a base fee.

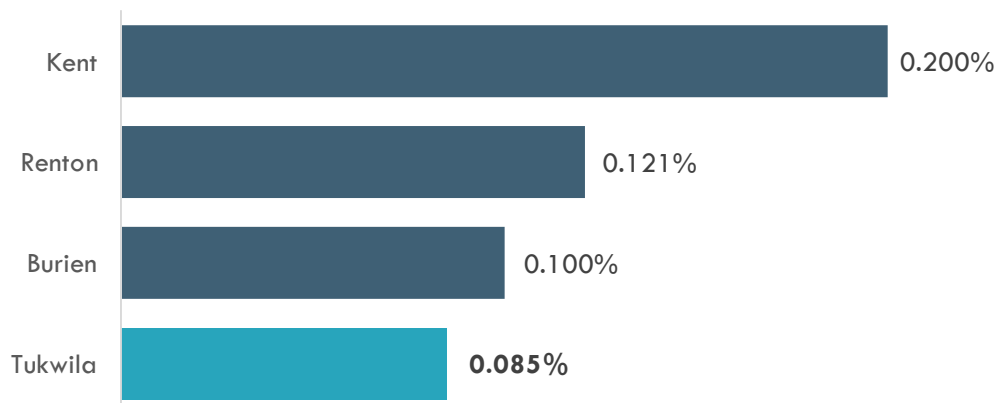
Exhibit 6: Property Tax Levy Rate for Tukwila and Peer Cities, 2023



Note: "Other" includes other taxing districts and excess city levies.

Sources: BERK, 2023; King County Assessor’s Office, 2023; Snohomish County Assessor’s Office, 2023.

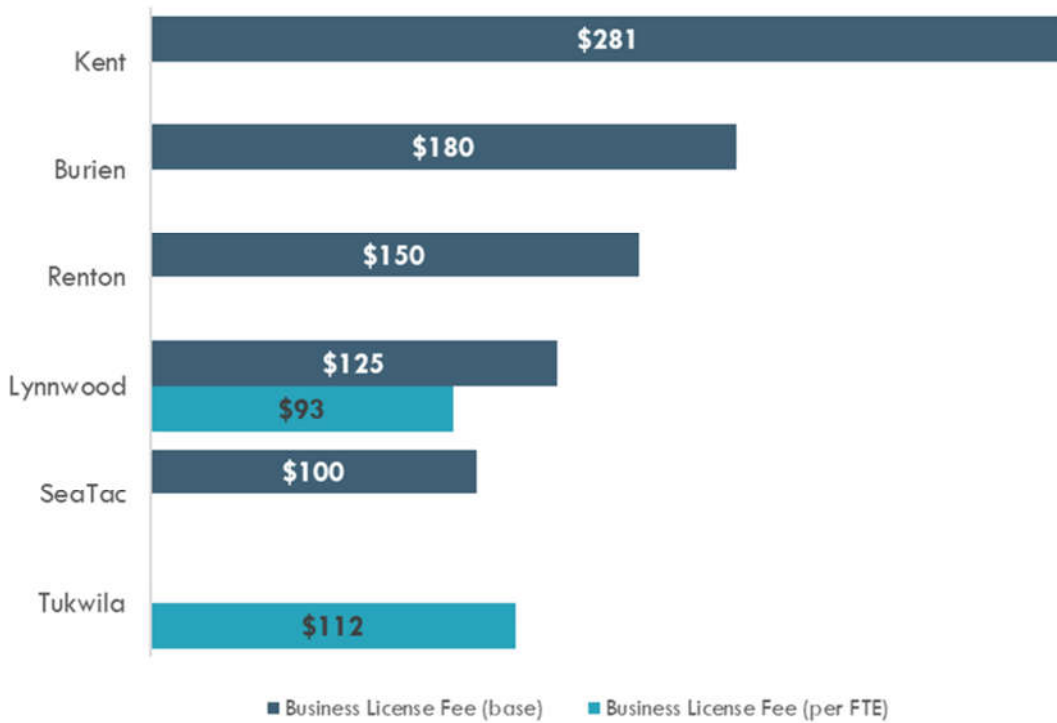
Exhibit 7: Business and Occupation Tax Rate for Tukwila and Peer Cities, 2023



Notes: Tukwila’s Business and Occupation Tax will begin January 1, 2024. These rates represent the highest rate levied if the city has a range depending on the type of business activity.

Sources: BERK, 2023; City of Burien, City of Kent, City of Renton, City of Tukwila, 2023.

Exhibit 8: Business License Fee for Tukwila and Peer Cities, 2023



Note: Burien, Kent, and SeaTac have a different base rate based on the number of employees.

Sources: BERK, 2023; City of Burien, City of Kent, City of Lynnwood, City of Renton, City of SeaTac, City of Tukwila, 2023.

Other revenue tools that are commonly used by cities include a transportation benefit district fee or tax, which pays for street maintenance, or impact fees, which pay for capital improvement projects. Exhibit 9 shows these tools and which peer cities currently use them. Tukwila assesses a lodging tax, along with most other cities. Tukwila also assesses impact fees, which are below some rates of peer cities. Only two cities in this group charge fees for a transportation benefit district.

Exhibit 9: Other Revenue Tools and Current Rates for Tukwila and Peer Cities, 2023

City	Lodging Tax	Transportation Benefit District Fee	Transportation Benefit District Sales Tax	Transportation Impact Fees	Parks Impact Fees
Burien	Not used	\$20	Not used	\$948	Not used
Kent	1.0%	Not used	Not used	\$8,979	Not used
Lynnwood	2.0%	\$40	0.10%	\$6,525	\$5,899
Renton	1.0%	Not used	Not used	\$12,209	\$3,276
SeaTac	1.0%	Not used	Not used	\$3,733	Not used
Tukwila	1.0%	Not used	Not used	\$3,726	\$3,629

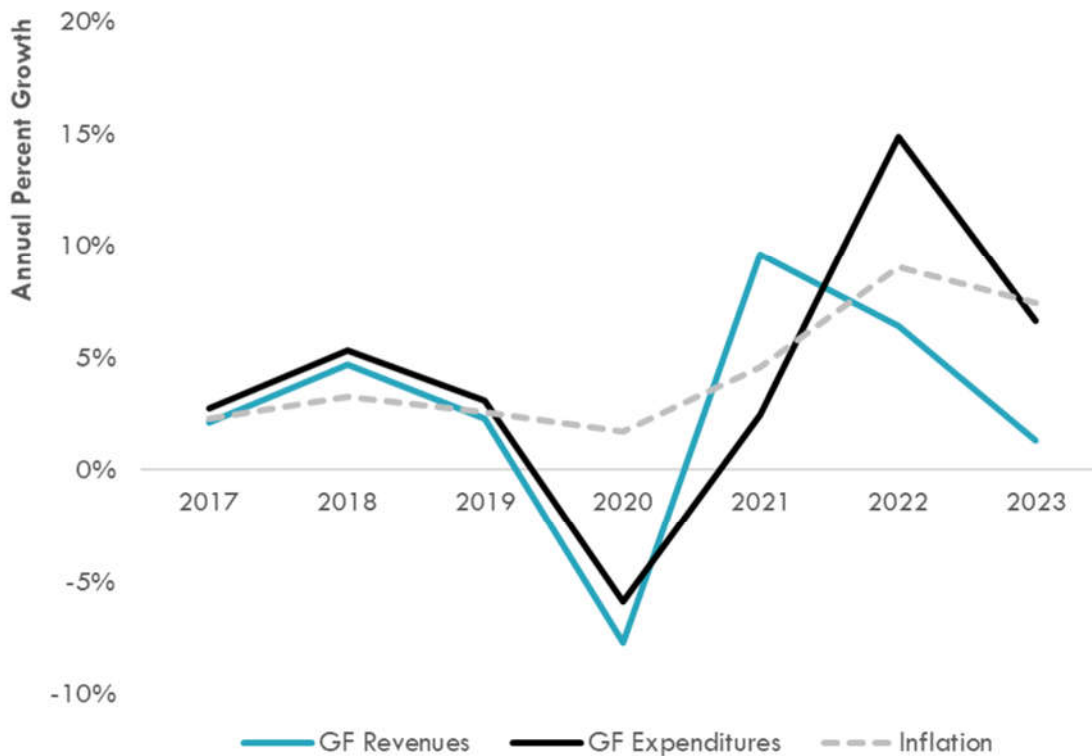
Sources: BERK, 2023; Municipal Research and Services Center, 2023; Washington State Department of Revenue, 2023.

General Fund Budget and Staffing Trends

The General Fund is the City’s largest and most flexible fund. Exhibit 10 shows that prior to the pandemic, between 2017 and 2019, revenues and expenditures grew in line with inflation. The City aligned service levels and expenditures with available revenues. Revenues declined during the pandemic, in 2020, and expenditures decreased to match. Revenues grew after the pandemic, in 2021 and 2022, as the economy began to recover during the pandemic. Expenditures grew during 2021 and 2022 as well, though at a slower rate in 2021.

In response to the decrease in revenues in 2020, the City froze positions, implemented employee furloughs, and reduced service levels in areas such as street maintenance and recreation. In the 2021-2022 biennium, federal funds allowed the City to reinstate key positions in Parks and Recreation, Community Development, and the Streets Division to continue to provide services in these areas. However, this did not return the City to previous service levels as several positions continue to be frozen. Exhibit 11 depicts the impact to the City’s total position count, which declined between 2016 and 2023.

Exhibit 10: Tukwila General Fund Revenue and Expenditure Annual Growth Compared to Inflation, 2017-2023



Note: Inflation is based on the annual Consumer Price Index for Seattle-Bellevue-Tacoma.

Sources: BERK, 2023; City of Tukwila, 2023; US Bureau of Labor Statistics, 2023.

The City's General Fund expenditures are made up of the following categories:

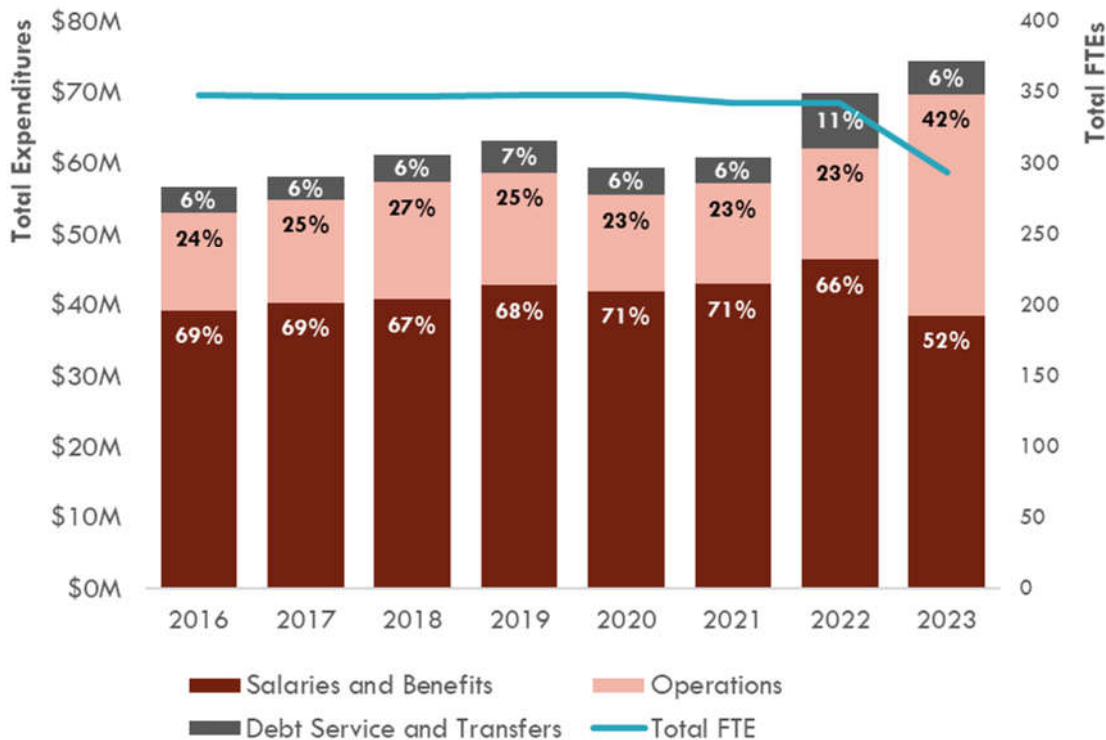
- **Salaries and benefits** include overtime, extra labor, holiday pay, insurance, pensions, uniforms, and unemployment compensation.
- **Operations** include supplies, professional development, communication, advertising, rentals, leases, technology services, public utilities, repairs, and maintenance.
- **Debt service and transfers** include principal and interest payments on debt and internal transfers from the General Fund to other City funds.

Exhibit 11 shows that approximately 70% of General Fund expenditures are spent on salaries and benefits. A city provides services to the community, which require employees to deliver, so it is standard that most of a city's budget is spent on salaries and benefits. Labor costs are driven by the regional labor market, competition for high quality staff, and City and organizational policies. The City also has an adopted compensation policy and philosophy (insert link to Resolution 1951) and conducts regular market/compensation studies to maintain competitive compensation packages for employees.

In 2023, the City changed its fire and emergency services model to contract for service instead of providing the service. This resulted in a drop in salaries and benefits and FTEs and an increase in operational expenditures.

Exhibit 11 also shows the number of full-time positions over this period. The total number of positions has been consistent, though there was a decline in 2020 as the City reduced service levels.

Exhibit 11: Tukwila General Fund Expenditures by Category and Total FTEs, 2016-2023



Note: The City had a large one-time debt service payment in 2022.

Sources: BERK, 2023; City of Tukwila, 2023.

Financial Sustainability Considerations

As noted above, the City has not yet returned to its previous service levels and some positions remain frozen. The City will need to balance the desire to return to previous service levels, or enhance service levels, with available resources.

Some additional considerations include:

The City has made significant investments in infrastructure and systems. These investments need ongoing operational support.

The cost of providing existing services is increasing. Some costs are outside of a department's control, such as new technology or participating in mandated training.

The Tukwila community needs a high level of service. The City has various social service needs. There are many new residents, including refugees and people seeking asylum. The consumers of City services may need individualized support. Departments have to staff for a larger population because of the high number of daytime visitors.

Growth is a driver of staff workload and will drive the demand on the City's infrastructure. As the City grows, it will have new projects and new employees, which adds to the workload of internal service departments. With more residents, jobs, and daytime visitors, some departments will need to add staff to provide the same level of service.