



## CITY COUNCIL SPECIAL MEETING AGENDA

[www.covingtonwa.gov](http://www.covingtonwa.gov)

**Tuesday, July 27, 2021  
6:00 p.m.**

**Virtually/Telephonically  
via Zoom Platform**

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*This city council special meeting will be held telephonically and virtually in compliance with state executive and legislative actions responding to the COVID-19 emergency.*

**The City Council Special Meeting will be held as follows:**

**Join Online:** <https://us02web.zoom.us/j/89595280816?pwd=MIE5STRWaUNPV1RrRjdpdTJXOGxKQT09>

Passcode: 07-27Cov

**Join by Phone:** 253-215-8782

Webinar ID: 895 9528 0816

Passcode: 41549096

### **CALL CITY COUNCIL SPECIAL MEETING TO ORDER**

#### **ROLL CALL**

#### **ITEMS**

1. Discuss Submitting a Ballot Proposition Seeking Voter Approval of a Sales and Use Tax within the City in the Amount of Two-Tenths of One Percent (0.2 Percent) for the Purpose of Paying for or Financing the Cost of Transportation Improvements (Parker)
2. Discuss Submitting a Ballot Proposition Seeking Voter Approval of a Sales and Use Tax within the City in the Amount of One-Tenth of One Percent (0.1 Percent) for the Purpose of Paying for Criminal Justice Purposes (Parker)

#### **ADJOURN**

**Americans with Disabilities Act – Please contact the City immediately to request reasonable accommodations at 253-480-2400.**

***\*Note\* A Regular Council meeting will follow at approximately 7:00 p.m.***

# Agenda Item 1

Covington City Council Meeting

Date: July 27, 2021

SUBJECT: DISCUSS SUBMITTING A BALLOT PROPOSITION SEEKING VOTER APPROVAL OF A SALES AND USE TAX WITHIN THE CITY IN THE AMOUNT OF TWO-TENTHS OF ONE PERCENT (0.2 PERCENT) FOR THE PURPOSE OF PAYING FOR OR FINANCING THE COST OF TRANSPORTATION IMPROVEMENTS.

ATTACHMENT(S): None

RECOMMENDED BY: Casey Parker, Finance Director

EXPLANATION:

## BACKGROUND

In 2013, the city formed the Covington Transportation Benefit District (“Covington TBD”), for funding transportation maintenance and improvement projects. In 2015, following changes to the transportation benefit district (“TBD”) statute, the city assumed the Covington TBD, which was absorbed into the city, while preserving to the city the rights, powers, immunities, functions, and obligations of the District.

As allowed by state law governing TBDs, the city currently imposes a \$20 vehicle license fee. Vehicle license fees have been the subject of protracted litigation as well as a voter initiative (I-976) to invalidate such fees. I-976, in turn, was struck down by the Washington State Supreme Court as unconstitutional

State law authorizes a TBD (and therefore, authorizes a city which has assumed the powers and functions of a TBD) to impose a 0.2 percent sales and use tax, subject to an affirmative simple majority vote within the city. The measure may be placed on the ballot at any special, primary, or general election.

In 2013, 2015, and 2018, the city attempted to pass a TBD sales and use tax ballot measure. All three attempts failed.

<b>Election Year</b>	<b>Election Results</b>	<b>Yes %</b>	<b>No %</b>	<b>Election Month</b>
2013	Failed	49.45	50.55	November
2015	Failed	48.07	51.93	April
2018	Failed	47.04	52.96	November

## ANALYSIS

The city has several options available when considering the adoption of this sales and use tax. Some cities have chosen to keep both the TBD vehicle license fee as well as the voter approved sales and use tax. Another option would be to remove the TBD vehicle license

fee once the sales and use tax is adopted. Lastly, we could do either of the options above while adopting a percentage lower than the maximum of 0.2 percent, such as 0.1 percent. The mechanism by which the City Council could eliminate vehicle license fees, and substitute a sales tax, would be an ordinance repealing existing code provisions that impose the vehicle license fees. The ordinance would also adopt new code sections imposing the transportation sales and use tax allowed by state law on all taxable events with the City of Covington. The tax requires voter approval by a majority of voters. The tax would be limited to paying for or financing identified transportation capital maintenance and improvement projects, which include projects listed in the city’s adopted Six-Year Transportation Improvement Plan.

Items for Council consideration and discussion include the following:

Timing. For what election should the ballot proposition be submitted? November 2021 general election? A special election, February 2022, April 2022, August 2022?

Timing of repeal of vehicle license fee. When and should the vehicle license fee be repealed? Keeping in mind the two-month lag on sales tax collections and when sales taxes can go into effect.

Timing of sales tax imposition. When should the new sales tax go into effect? Sales tax rate changes may only take effect on January 1, April 1, or July 1, and no sooner than 75 calendar days after the Department of Revenue receives notice of the change.

Tax rate. Should the tax be set at the maximum allowed by state law (0.2 percent), or some other percentage?

Term of tax. State law (RCW 82.14.0455) limits the transportation sales tax to a term of 10 years, with an ability to renew for one additional ten-year period, or a longer period if the proceeds of the tax are pledged to repayment of indebtedness. Should the city allow for the potential issuance of bonds to pay for larger transportation projects, or should the tax be used only on a “pay as you go” basis?

**Key deadlines for voted sales and use tax measures**

<u>Election</u>	<u>Filing deadline</u>	<u>Approved sales tax increases take effect</u>
February special	Early-to-mid December	July 1 of election year
April special	Late February	January 1 of next year
August primary	Early-to-mid May	January 1 of next year
November general	Date of August Primary	April 1 of next year

**BUDGET**

Using 2019 as a base year, the 0.2 percent sales and use tax would have generated approximately \$1,097,000 in revenue for the city (approximately \$988,400 from reoccurring sources and \$108,600 from construction sources). By comparison, the \$20 vehicle license fee generated approximately \$345,000 in revenue for the city. As a result, the net revenue gain to the city would have been \$752,000 if the ballot proposition was approved in 2018 and implemented in 2019.

One important difference between the \$20 vehicle license fee and 0.2 percent sales and use tax is in how the fee/tax burden is distributed. The \$20 vehicle license fee is narrowly focused on mostly car ownership, which within the City of Covington is heavily skewed towards residents and households. Conversely, the 0.2 percent sales and use tax would be imposed upon a broader base (all retail sales transactions within the city) and thus would be paid by anyone who visits the city every year and the business community, in addition to the residents. A resident who pays the \$20 vehicle license fee would need to spend approximately \$10,000 on taxable goods and services within the city in order to generate \$20 in revenue resulting from the 0.2 percent sales and use tax. (Taxable goods and services do not include exempt items such as non-prepared groceries, prescription drugs, etc.).

If submitted for the November 2021 general election, a ballot proposition would be expected to incur approximately \$40,000 in election costs. Submission on a special election would cost approximately \$36,000. A budget amendment would need to occur within the Street Fund to fund the cost of a ballot proposition.

FISCAL IMPACT:

See above

CITY COUNCIL ACTION: \_\_\_ Ordinance \_\_\_ Resolution \_\_\_ Motion X Other

**For discussion purposes only.**

REVIEWED BY: City Manager; City Attorney.

## Agenda Item 2

Covington City Council Meeting

Date: July 27, 2021

SUBJECT: DISCUSS SUBMITTING A BALLOT PROPOSITION SEEKING VOTER APPROVAL OF A SALES AND USE TAX WITHIN THE CITY IN THE AMOUNT OF ONE-TENTH OF ONE PERCENT (0.1 PERCENT) FOR THE PURPOSE OF PAYING FOR CRIMINAL JUSTICE PURPOSES.

ATTACHMENT(S): None

RECOMMENDED BY: Casey Parker, Finance Director

### EXPLANATION:

State law authorizes the city to increase the sales and use tax by up to 0.1 percent (one-tenth of one percent) by placing a measure on the ballot, at any primary or general election. The measure would require an affirmative simple majority vote within the city. Fifteen percent of the tax proceeds must be shared with King County. Motor vehicle sales are exempt from the tax and one-third of funds received must be used “solely for criminal justice purposes, fire protection purposes, or both.” Criminal justice purposes are defined in the RCWs as activities that substantially assist the criminal justice system, which may include circumstances where ancillary benefit to the civil justice system occurs, and which includes domestic violence services. Until December 31, 2023, “criminal justice purposes” also include local government programs that have a reasonable relationship to reducing the numbers of people interacting with the criminal justice system, including reducing homelessness or improving behavioral health. The remainder may be used for any City purpose. The Finance Department estimates that the net revenue from this sales and use tax after factoring out car sales and the portion provided to King county would be approximately \$440,000 annually.

The recommended sales and use tax increase of one-tenth of one percent (0.1 percent) would equate to 1 penny on a \$10 purchase or 10 cents on a \$100 purchase.

Items for Council consideration and discussion include the following:

Timing. For what election should the ballot proposition be submitted? November 2021 general election? August 2022 primary election?

Timing of sales tax imposition. When should the new sales tax go into effect? Sales tax rate changes may only take effect on January 1, April 1, or July 1, and no sooner than 75 calendar days after the Department of Revenue receives notice of the change.

Tax rate. Should the tax be set at the maximum allowed by state law (0.1 percent), or some other percentage?

Use of tax. One-third of the funds must be used for criminal justice purposes, fire protection purposes, or both. How much should be assigned to criminal justice purposes and/or fire protection purposes?

**Key deadlines for voted sales and use tax measures**

<u>Election</u>	<u>Filing deadline</u>	<u>Approved sales tax increases take effect</u>
August primary	Early-to-mid May	January 1 of next year
November general	Date of August Primary	April 1 of next year

If submitted for the November 2021 general election, a ballot proposition would be expected to incur approximately \$40,000 in election costs. Submission on a future primary election would cost approximately \$33,000. A budget amendment would need to occur within the General Fund to fund the cost of a ballot proposition.

FISCAL IMPACT:

See above.

CITY COUNCIL ACTION: \_\_\_ Ordinance \_\_\_ Resolution \_\_\_ Motion X Other

**For discussion purposes only.**

REVIEWED BY: City Manager; City Attorney.