



**CITY AUDITOR** 345 6<sup>th</sup> Street, Suite 100, Bremerton, WA 98337-1873 & Phone (360) 473-5369

November 4, 2020

To Audit Committee Members:

Leslie Daugs, Audit Committee Chair and Council Member  
Mike Simpson, Council Member  
Deborah McDaniel, Audit Committee Vice-Chair and Citizen Member  
Darryl Riley, Citizen Member  
Dennis Treger, CPA

**Re: History of Utility Taxes and PILOT**

Dear Audit Committee Members:

At your request and based on the information reviewed to date, I am providing the results of our research on City utility taxes and payment in lieu of tax (PILOT). I understand this information may be used for budget discussion purposes.

**BACKGROUND**

Utility taxes are business and occupation (B&O) taxes that may be imposed on various utilities whether the service is provided by:

- a) Public or private utility companies that provide service within City boundaries, or
- b) The City's own utilities irrespective of whether the service is provided within or outside the City boundaries.

It is important to note that the utility tax is imposed on the utility versus the commercial or residential customer. The tax is reported by the City as an expense to the utility and a source of funds to the City. Although the utility is liable for paying the tax, in the end, the commercial and residential customers pay the tax, albeit indirectly, because the utility establishes its billing rates based on the utility's expenses, including the utility tax.

RCW 35.21.870 establishes a maximum utility rate of six percent for electricity, gas, steam, and telephone unless a simple majority of voters approve a higher rate. Internet (47 USC §151 notes) and broadcast satellite TV (47 USC §152 notes) may not be taxed, and cable TV tax cannot be unduly discriminatory (47 USC §542(g)(2)(A)). There is no limit prescribed by state or federal law for the utility tax rate on water, sewer, or stormwater.



During the 2020 regular session, the Washington State legislature passed Substitute House Bill 2889 that requires cities or towns that operate their own water, sewer, or stormwater utility and impose a fee or tax on the gross revenue to disclose the fee or tax rate to its utility customers. The disclosure can be made through regular billing statements, on the jurisdiction's website, or through a billing insert, mailer, or similar communication annually. Please refer to Exhibit 1 of this report for a redacted utility bill that shows how the City discloses the utility tax. I expect the disclosure is not readily apparent or fully understood by many customers (as evidenced by the lack of complaints.)

### **BREMERTON UTILITY TAX RATES**

We reviewed the City's utility tax rates from 2002 to present. In 2002, the City had a six percent utility tax on each water and sewer, and beginning in 2003, the City had a seven percent tax on stormwater. From 2004 through 2008, each of the three utility rates was set at 8.5 percent. At the end of 2008, rates for each of the three utilities were increased to 9.5 percent for 2009.

At the April 1, 2009 City Council Meeting, Council voted to approve a utility Payment in Lieu of Tax (PILOT) totaling \$550,000. The PILOT was in addition to the 9.5 percent tax on each utility. It is currently estimated the initial PILOT amounted to approximately 1.7 to 2.0 percent on each utility; however, additional information is needed to confirm the percent.

Seven and a half months after approving the initial PILOT, City Council<sup>1</sup> voted to approve increasing the PILOT to six percent on each of the utilities (in addition to the 9.5 percent utility tax). November 18, 2009 City Council Meeting Minutes from the Public Hearing on Revenue Sources cite the reason for the increase was that due to the recession, revenue was significantly reduced to the City General Fund beginning late 2008 and was projected to continue through 2010.

Faced with the prospect of having to reduce essential services below an "acceptable level" due to lack of funding, and possibly losing outside revenue, on November 18, 2009, the City Council approved a non-permanent additional PILOT of six percent on each utility – water, sewer and stormwater. The PILOT Ordinance No. 5096 stated in part,

It is the intent of City Council that as conditions improve, and or the City identifies alternative revenue sources the additional utility taxes provided in this ordinance are to be reduced and or eliminated; and

The City Council shall be provided an analysis annually of the justification for the additional PILOT until such time as the additional PILOT is eliminated.

The utility tax rate for sewer and stormwater was increased from 9.5 percent to 14 percent beginning in 2012, yielding a total tax/PILOT of 20 percent on those two utilities.

The table below summarizes Bremerton's utility tax and PILOT rates from 2002 to present. As shown, the tax rates have increased rather than be reduced or eliminated.

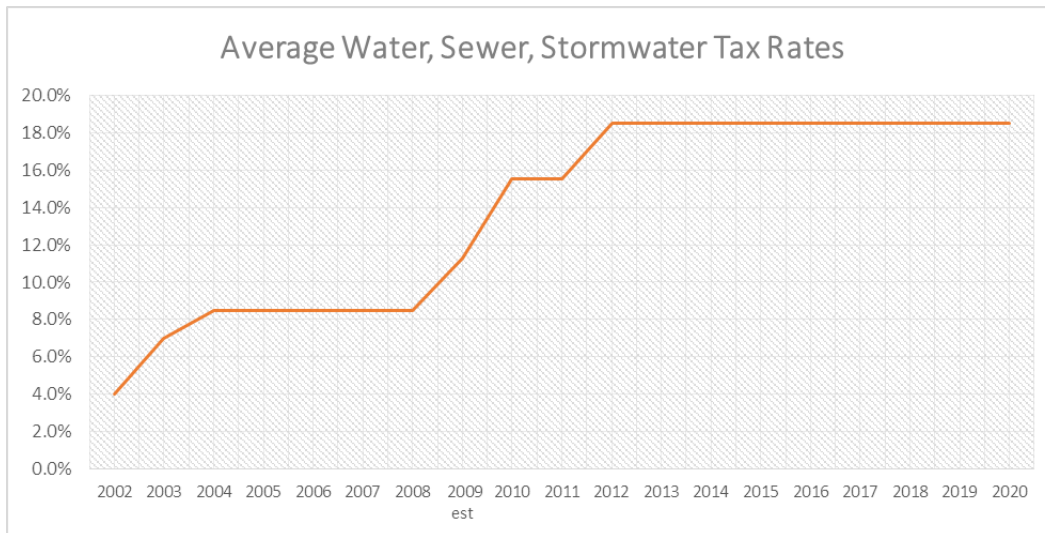
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<sup>1</sup> Those in favor included Maupin, Wofford, Gehring, Brockus, Runyon, and McConnell. Opposed were Robinson, Arends, and Shepherd.



Year	Utility Tax			PILOT			Total Tax and PILOT			Average
	Water	Sewer	Stormwater	Water	Sewer	Stormwater	Water	Sewer	Stormwater	
2002	6.0%	6.0%	0.0%				6.0%	6.0%	0.0%	4.0%
2003	7.0%	7.0%	7.0%				7.0%	7.0%	7.0%	7.0%
2004	8.5%	8.5%	8.5%				8.5%	8.5%	8.5%	8.5%
2005	8.5%	8.5%	8.5%				8.5%	8.5%	8.5%	8.5%
2006	8.5%	8.5%	8.5%				8.5%	8.5%	8.5%	8.5%
2007	8.5%	8.5%	8.5%				8.5%	8.5%	8.5%	8.5%
2008	8.5%	8.5%	8.5%				8.5%	8.5%	8.5%	8.5%
2009 est	9.5%	9.5%	9.5%	\$ 205,000	\$ 303,000	\$ 42,000	11.2%	11.2%	11.5%	11.3%
2010	9.5%	9.5%	9.5%	6.0%	6.0%	6.0%	15.5%	15.5%	15.5%	15.5%
2011	9.5%	9.5%	9.5%	6.0%	6.0%	6.0%	15.5%	15.5%	15.5%	15.5%
2012	9.5%	14.0%	14.0%	6.0%	6.0%	6.0%	15.5%	20.0%	20.0%	18.5%
2013	9.5%	14.0%	14.0%	6.0%	6.0%	6.0%	15.5%	20.0%	20.0%	18.5%
2014	9.5%	14.0%	14.0%	6.0%	6.0%	6.0%	15.5%	20.0%	20.0%	18.5%
2015	9.5%	14.0%	14.0%	6.0%	6.0%	6.0%	15.5%	20.0%	20.0%	18.5%
2016	15.5%	20.0%	20.0%				15.5%	20.0%	20.0%	18.5%
2017	15.5%	20.0%	20.0%				15.5%	20.0%	20.0%	18.5%
2018	15.5%	20.0%	20.0%				15.5%	20.0%	20.0%	18.5%
2019	15.5%	20.0%	20.0%				15.5%	20.0%	20.0%	18.5%
2020	15.5%	20.0%	20.0%				15.5%	20.0%	20.0%	18.5%

As shown above, the PILOT was changed to a utility tax in 2016. At this time, it is unclear why it was changed to a utility tax, or alternatively, why it was initially called a PILOT. The trend of the average tax rates is illustrated in the chart below:



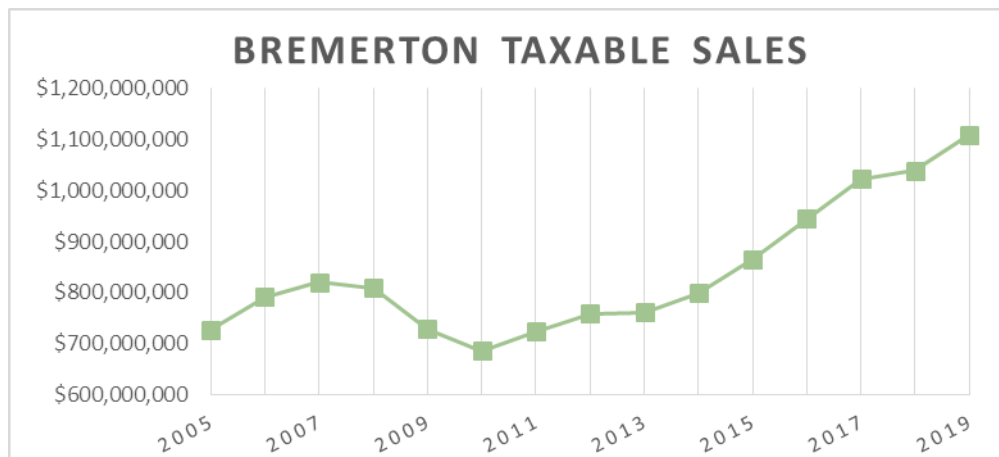
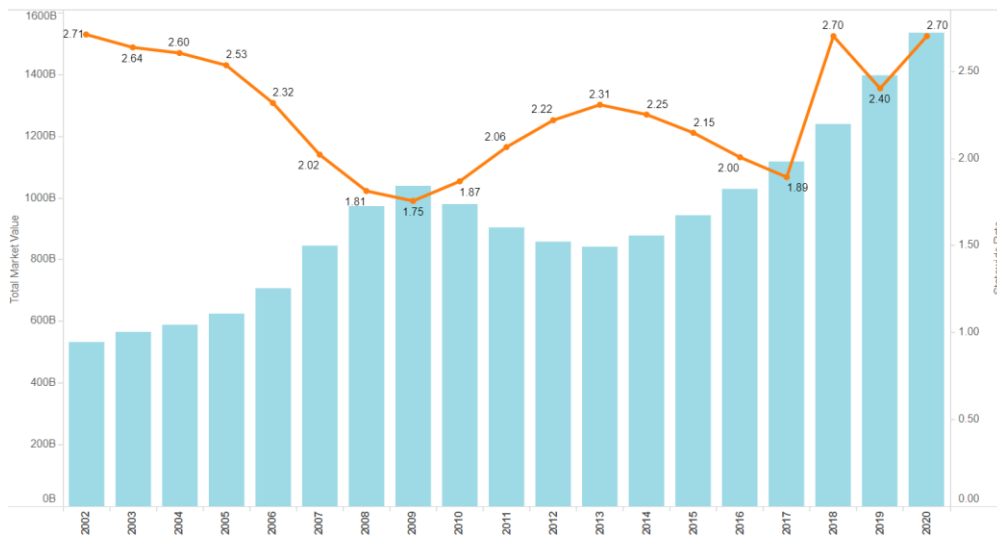
A complete review of the economy during this period is beyond the scope of this report; however, since at least 2002, the City reached its lowest full time equivalent (FTE) employee count in 2013. After 2013, the City began increasing its full time equivalent employee count each year through 2020, suggesting the City recovered from the economic downturn during this period, as shown in the chart (right):

Year	Full Time Equivalent Employees	FTE Increase
2014	324.58	
2015	327.18	2.60
2016	327.54	0.36
2017	343.63	16.09
2018	356.73	13.10
2019	363.88	7.15
2020	373.53	9.65

2014 to 2020 increase 48.95



Additionally, based on the charts below it appears statewide real property values were recovering from the recession by 2014 and Bremerton sales were recovering beginning around 2011. Insufficient information has been reviewed to understand what analysis was provided to Council to justify continuing the utility taxes at the higher rates after it appears the economy recovered.





**BREMERTON UTILITY TAX USES**

The table below shows how much revenue has been generated from each of the utility taxes since 2016:

Utility	2016	2017	2018	2019	Annualized 2020
Water	\$ 1,759,413	\$ 2,063,033	\$ 2,324,594	\$ 2,320,742	\$ 2,027,418
Sewer	2,964,677	2,999,130	3,436,132	3,082,822	3,108,204
Stormwater	581,527	687,123	820,255	834,703	849,426
<b>Total</b>	<b>\$ 5,305,617</b>	<b>\$ 5,749,286</b>	<b>\$ 6,580,981</b>	<b>\$ 6,238,266</b>	<b>\$ 5,985,048</b>

Total budgeted utility taxes for 2021 are currently \$6.6 million. Mike Riley, Finance Services Director, stated all of the water and sewer tax goes to the General Fund, and the stormwater tax is equally split between the Transportation Capital Improvement Fund and Residential Street and Sidewalk Fund, as follows:

Utility	Budgeted 2021 Tax	General Fund	Transportation Capital Improve.	Streets and Sidewalks
Water	\$ 2,300,000	\$ 2,300,000	\$ -	\$ -
Sewer	3,300,000	3,300,000	-	-
Stormwater	1,000,000	-	500,000	500,000
<b>Total</b>	<b>\$ 6,600,000</b>	<b>\$ 5,600,000</b>	<b>\$ 500,000</b>	<b>\$ 500,000</b>

**OTHER CITY UTILITY TAX RATES**

The Association of Washington Cities conducts a member survey every couple of years. One of the survey requests is for the utility tax rates. In 2018, there were 92 survey respondents, 70 that provided utility tax rates. It is unclear whether those that did not respond to the tax rate question do not charge utility taxes or they just did not respond to the question. Neighboring cities, Poulsbo and Port Orchard, did not respond to the question but revealed the following in our follow up request for information:

Poulsbo passed an ordinance in September 2020 that increases the utility tax rate on water, sewer, and stormwater from six percent each to 12 percent, effective October 1, 2020. The ordinance provides specific language that provides the tax rates will be decreased two percent every other year beginning January 1, 2023 until the rates are back to six percent.

Port Orchard charges a five percent utility tax on each of its water, sewer, and stormwater utilities with no increase in its 2021-2022 biennial budget.

Exhibit 2 of this report summarizes the rates reported by the 70 respondents that provided utility tax rates. If Bremerton was on this list, its water, sewer, and stormwater utility tax rates would rank fifth highest in the state. The average tax rates for water, sewer, and stormwater of the 70 respondents are 8.9 percent, 8.4 percent, and 3.6 percent, respectively (compared to Bremerton's 15.5 percent, 20 percent, and 20 percent).



**RECOMMENDATION**

Based on this review, it appears the utility tax increase was intended to be temporary; however, the language in the ordinance was not specific in terms of how or when the tax would be rolled back. As a result, the tax has remained at the increased level throughout a strong economy when it appears that was not the intent of those who voted to approve the tax increase. Future ordinances of this nature should consider specifying when and how the tax increase will be rolled back, similar to Poulsbo's ordinance.

Please contact me if you have questions or need additional information.

Sincerely,

Jennifer L. Sims CPA/CFF, CFE  
City Auditor

cc: City Council  
Mayor Greg Wheeler  
Mike Riley, Financial Services Director  
Tom Knuckey, Public Works Director

# EXHIBIT 1 - Sample Utility Bill

**OFFICE HOURS: 8:00 A.M. - 4:30 P.M.  
MONDAY - FRIDAY, EXCEPT HOLIDAYS**

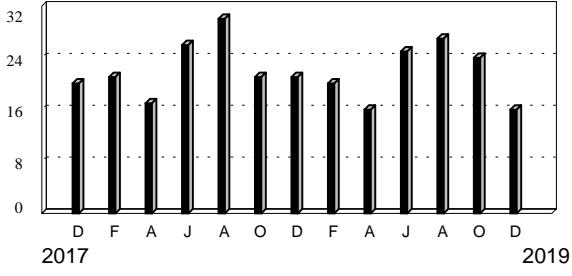
ACCOUNT NUMBER	CUSTOMER NAME	BILLING DATE	DUE DATE
[REDACTED]	[REDACTED]	12/23/19	01/23/20
PARCEL NUMBER	SERVICE LOCATION	FROM	TO
[REDACTED]	[REDACTED]	10/21/19	12/16/19
			AMOUNT DUE
			102.08

METER NUMBER	PREVIOUS READING	CURRENT READING	USAGE IN HCF	NO. OF DAYS	DESCRIPTION	AMOUNT
[REDACTED]	572	588	16	56	PREVIOUS BALANCE	131.68
						-131.68

WATER FLAT FEE	42.88
16 HCF @ 3.70	59.20
<b>CURRENT CHARGES:</b>	<b>102.08</b>

Your water consumption is billed in hundred cubic feet (HCF).  
 One hundred cubic feet equals 748 gallons.  
 Usage for this billing period equals 11,968 gallons.  
 Utility Tax Breakdown: Water 15.5% Sewer 20% Stormwater 20%

Bi-Monthly Consumption in Hundred Cubic Feet



**TOTAL DUE** **102.08**

**Winterize your home... prepare for emergencies and cold weather.** Store a water supply. Wrap exposed pipes outside and in cold areas of the house. Wrap or cover outdoor faucets. Seal cracks and access doors. Locate your master water supply valve and tag it so you can find it quickly in an emergency. It's also important to clean roof drains and gutters before heavy rains and snow to avoid a mess and possible damage.

Visit [www.bremertonwa.gov/304/Cold-Weather-Preparation](http://www.bremertonwa.gov/304/Cold-Weather-Preparation) for more information.

**FOR BILLING INFORMATION, AUTOMATIC PAYMENTS OR QUESTIONS, PLEASE CALL 360-473-5316 DURING OFFICE HOURS.**  
 Online payment option available at [www.invoicecloud.com/bremertonwa](http://www.invoicecloud.com/bremertonwa) (convenience fee applies). If mailing your payment, please include remittance portion, write account number on check and mail to: City of Bremerton, PO Box 34569, Seattle, WA 98124-1569



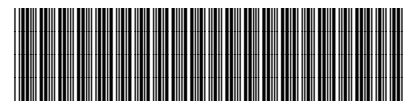
PLEASE RETURN THIS PORTION WITH YOUR PAYMENT

*This stub ensures that your payment is processed accurately.*

BILLING DATE	AMOUNT DUE	DUE DATE
12/23/19	102.08	01/23/20
ACCOUNT NUMBER	SERVICE LOCATION	
[REDACTED]	[REDACTED]	

Please Make Check Payable To

CITY OF BREMERTON  
 UTILITY BILLING  
 PO BOX 34569  
 SEATTLE WA 98124-1569



**EXHIBIT 2 - UTILITY TAX RATES BY CITY (A)**

City/Town	2018 Reported Utility Tax Rate (%)			Average
	Water	Sewer	Stormwater	
Vancouver	24.50	24.50	24.50	24.50
Almira	30.00	30.00		20.00
Battle Ground	20.00	20.00	20.00	20.00
Yakima	20.00	20.00	20.00	20.00
Prosser	22.30	21.70		14.67
Bellingham	18.25	11.50	11.50	13.75
Soap Lake	20.00	20.00	0.00	13.33
White Salmon	18.00	21.00		13.00
Airway Heights	19.80	15.00		11.60
Centralia	10.00	14.00	10.00	11.33
Chewelah	17.00	17.00		11.33
West Richland	14.00	12.50	6.00	10.83
Leavenworth	10.00	10.00	10.00	10.00
Moses Lake	10.00	10.00	10.00	10.00
Winthrop	15.00	15.00		10.00
DuPont	12.00	6.00	10.00	9.33
Port Angeles	10.00	10.00	8.00	9.33
Blaine	9.00	9.00	9.00	9.00
McCleary	9.00	9.00	9.00	9.00
Montesano	8.50	8.50	8.50	8.50
Mesa	5.00	20.00		8.33
Lacey	12.04	6.00	6.00	8.01
Deer Park	12.00	12.00		8.00
Puyallup	8.00	8.00	8.00	8.00
Kalama	11.00	11.00		7.33
Anacortes	7.00	7.00	7.00	7.00
Oroville	10.00	10.00		6.67
Raymond	10.00	10.00		6.67
Chelan	9.50	9.50		6.33
Renton	6.00	6.00	6.80	6.27
Oak Harbor	6.25	6.25	6.00	6.17
Colfax	6.00	6.00	6.00	6.00
Fircrest	6.00	6.00	6.00	6.00
Lynnwood	6.00	6.00	6.00	6.00
Sumner	6.00	6.00	6.00	6.00
Tumwater	6.00	6.00	6.00	6.00
Ruston		8.00	8.00	5.33
Sequim	8.00	8.00	0.00	5.33
Clarkston		14.00		4.67
Vader	7.00	7.00		4.67
Westport	7.00	7.00		4.67
Cathlamet	6.00	6.00		4.00
Cle Elum	6.00	6.00		4.00
Cosmopolis	6.00	6.00		4.00
Coupeville	6.00	6.00		4.00
Forks	6.00	6.00		4.00
Hunts Point	6.00	6.00		4.00
LaCrosse	6.00	6.00		4.00
Napavine	6.00	6.00		4.00
North Bend	6.00	6.00		4.00
Oakesdale	6.00	6.00		4.00
Pomeroy	6.00	6.00		4.00
Roy	12.00			4.00
Selah	6.00	6.00		4.00
South Cle Elum	6.00	6.00		4.00
Tekoa	5.30	6.00		3.77
Snohomish	5.33	5.33		3.55
Monroe	10.00			3.33
Pateros	5.00	5.00		3.33
Waverly	9.00			3.00
Mossyrock	5.03	3.85		2.96
Covington			8.00	2.67
Ridgefield	8.00			2.67
Hartline	7.90			2.63
Federal Way			7.75	2.58
Lakewood			6.00	2.00
Lyman	6.00			2.00
Waitsburg	2.00	2.00		1.33
Prescott	2.00			0.67
Brier	1.00			0.33

(A) This list only includes cities/towns that reported a tax. Cities/towns that do not charge a utility tax or did not report the tax are excluded.