AWC
ASSOCIATION OF WASHINGTON CITIES

State of the Cities

Greater responsibilities, fewer resources

2020 report

Methodology of State of the Cities research project

This State of the Cities research report is revisiting a project first conducted by the Association of Washington Cities (AWC) in 2005. Fifteen years later, this new report is designed to reflect the current fiscal conditions, costs, and service challenges of the 281 cities in Washington state and to communicate the links between the health of cities and the state's economic health.

This report presents a comprehensive analysis of the conditions that impact our cities today, over the last four years, and what challenges cities are anticipating in the future.

142 of Washington's 281 cities and towns (representing 68% of the statewide incorporated population) responded to a survey on major issues and challenges for cities. Survey data was supplemented with data from the U.S. Census, Washington State Auditor Financial Intelligence Tool, issue-specific city data reports, and other state agency program data for analysis.

In addition, analysis was conducted to categorize cities by common characteristics (such as small rural, tourism, large central cities) into clusters to further analyze financial conditions and common concerns by types of cities.

Find more information on the State of the Cities research by visiting our website. wacities.org

Cities today

In this report, we use the word "cities" in reference to both Washington cities and towns.

As the governments closest to the people, cities bring critical value to the health of the state. Cities drive economic health, population growth, and commercial activity in Washington. When the state invests in cities, we all benefit.

In the last decade however, cities have faced evolving challenges, new service demands, structural gaps in revenues and expenditures, and decreasing state commitment to city issues. Despite these trials, cities are doing their part to deliver more and better services to residents—all while leading with innovations to meet new and existing service needs.

Cities squeezed by the Great Recession ten years ago are better off today, but constrained revenues mean they still struggle to meet the growing needs of their communities. Structural issues with city revenues, changes in state and federal shared revenues, and new expenditure challenges have resulted in backlogs in infrastructure upgrades and other needs.

The availability of funding for local services varies widely across the state's diverse cities depending on their growth, business activity, and other economic conditions. But the state has consistently limited local options for cities to adequately fund their most basic services, meet the needs that accompany population growth, and keep up with the effects of inflation. Further exacerbating the situation, the Legislature has repeatedly swept city assistance programs to help fill state budget gaps.

In short, cities are tasked with doing more than ever before, with less help and financial assistance to do it all.

Cities provide critical value to the state

Basic services like streets, utilities, parks, and public safety impact the daily lives of city residents. They also drive the economic health, population growth, and commercial activity in the state. Cities bring great value to our quality of life. Things like clean water, safe streets, and the accompanying thriving businesses are basic expectations. Without healthy cities, the state cannot thrive.

281 cities

Cities drive the state's economy

85%
of all retail sales

69%
of job-generating businesses

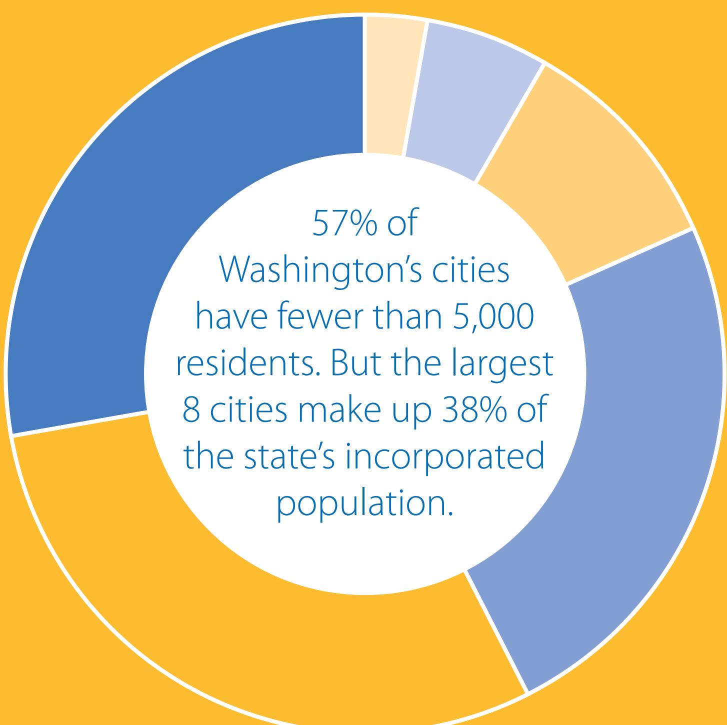
Cities generate the state's annual revenue

$9.4
billion in sales tax sent to the state general fund

$2.8
billion of the state's B&O tax

$2.3
billion in property tax for state school levy (*includes additional school levy)

City population distribution



Population | **Number of cities**

- Over 100,000 | **8**
- 50,000 - 100,000 | **17**
- 20,000 - 50,000 | **30**
- 5,000 - 20,000 | **66**
- 1,000 - 5,000 | **83**
- Less than 1,000 | **77**

Cities—where Washingtonians live

4.9 million people live in cities.

That is **65%** of the state's population (and growing).

1.5 million more residents will locate in Washington state between 2020 and 2040. That's the equivalent of adding another Spokane, Vancouver, Tacoma, Yakima, Seattle, and Kennewick combined.

People choose cities to live, work, and play

At their core, cities are communities of people who seek a place that reflects their needs and values. While cities provide core services, they also provide an intangible sense of belonging that draws people to them and creates a connection. The things people love about their city instills their deep connections to their hometowns. This translates into high expectations for their municipal government.

Cities are the governments closest to the people

Residents recognize the value of cities and the services they provide. People choose where to live, in part, by considering the things they love about their community. In that respect, it makes sense that city governments so closely reflect the communities that elect them. Local governments consistently score higher in public opinion polls gauging government trust. In 2018, there was a significant gap between how much more favorably people view local government compared to state and federal government.

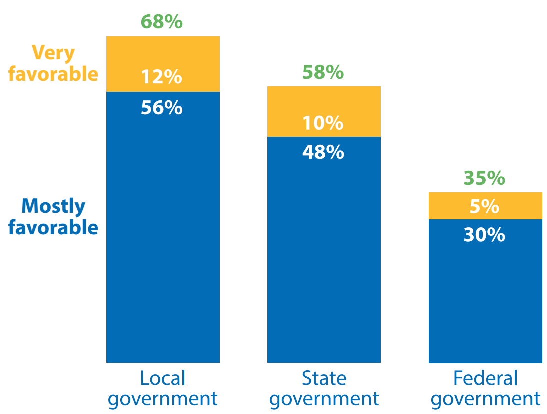
Population changes in Washington

Cities represent 65% of the state's population and act as growth hubs for the state. It is estimated that the population of Washington will grow by 1.5 million people in the next 20 years, and many will settle in cities.

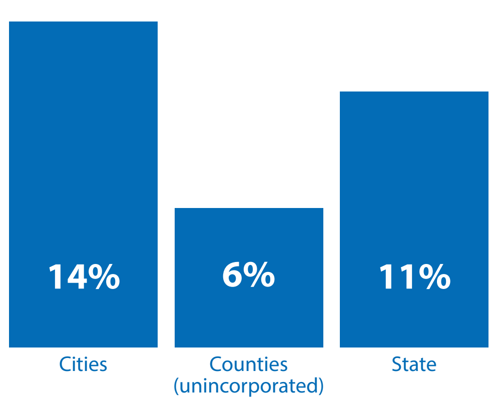
Throughout the last decade however, in addition to growth in urban cities and suburbs, areas that were once considered rural have grown substantially. Communities that once had more suburban or rural character and service needs have grown into urban areas and new suburbs. On top of that, the fastest growing cities are dispersed throughout the state due to a combination of migration, job growth, and annexations.

The demographics of cities are also shifting. The state is growing more diverse as communities work to provide flexible services for changing and aging populations.

Trust in government



Population growth rate from 2010-2019



Cities' most challenging community conditions

Availability of affordable housing

Infrastructure conditions (water/sewer/stormwater)

Cities need the state's help to meet growing challenges

Cities are consistent about how the state can help with our long-standing needs, including:

- Infrastructure funding
- Local revenue flexibility
- Revising the 1% property tax limit
- Local option revenue tools
- Economic development tools

Throughout the last decade, the major challenges facing cities have evolved to include new service demands that fall outside of the traditional roles of cities. Changes include increasing pressure for affordable housing and human services and the impacts of evolving technology, such as cybersecurity threats.

Local control remains a core theme for cities. Local elected officials are in the best position to know what solutions work best for their communities.

Overall economic health of cities

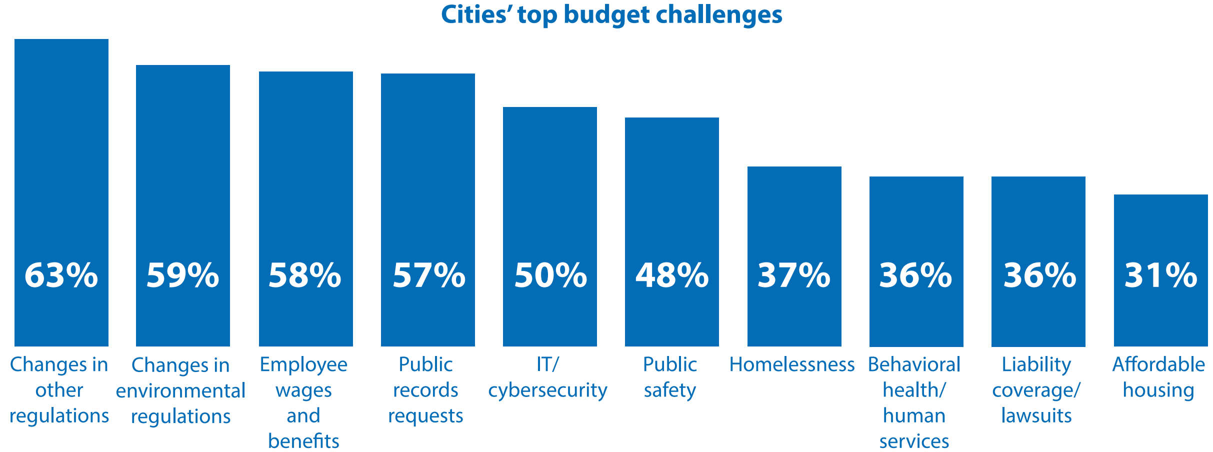
The overall economic health of cities is better for most cities than it was four years ago. That's partly because population growth, changes to sales taxes, and the growing economy have helped some cities recover from the last recession.

But, looking to the future:

- 20% of cities predict that their situation will be worse in the next year; and
- 38% predict they will be less able to meet basic needs in the next several years.

This is due (in part) to predictions and changing indicators of a possible recession looming in the near term and the fact that many cities heavily rely on growth to overcome structural limits of city revenues.

Cities' top budget challenges



How the state can best support cities

Funding for infrastructure projects

Protect state shared revenues

Unfunded mandates

Availability of behavioral health resources

Availability of local employment opportunities

"Strong sales tax growth (8-10% annually) has offset impacts of diminishing property tax revenues, helping our city meet our financial needs. I am **concerned about the long-term viability of this trend.**"

—Aberdeen, WA
Population: 17,000

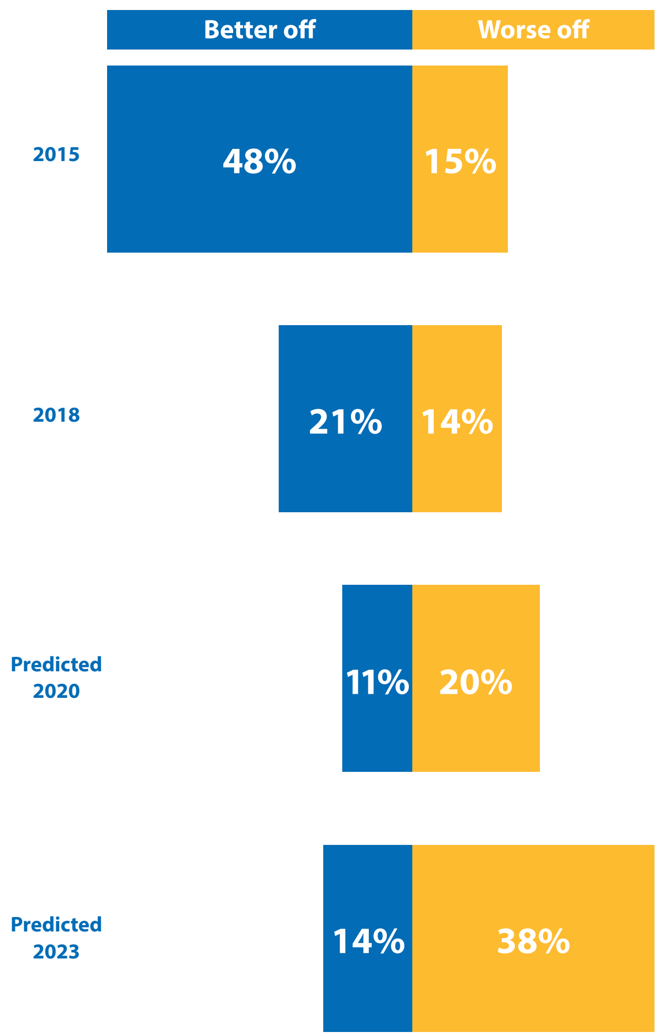
"Due to rising costs and less revenue we are **struggling to stay above water.**"

—Marcus, WA
Population: 175

"Even though we are in one of the most economically healthy regions in the nation, **revenues are not keeping pace** with the increasing cost of doing business. Kenmore is very dependent on property tax, which can only grow by 1%, thanks to state-imposed limits. While we we've already implemented a lot of actions to delay the inevitable, our **financial lines are going to cross** (operating expenditures will start to exceed operating revenues) in 2021."

—Kenmore, WA
Population: 23,000

Is your city better or worse off?



Funding to maintain operating services

Increase 1% property tax limit

Allow flexibility with existing resources

Assist local governments in economic development

City budgets & finances

Cities are economic generators for the state

Cities are the economic engines of our state, serving as hubs for regional economies. Most of Washington's population lives or works in a city, contributing to an economy that benefits the state.

An uncertain future

Washington cities are more financially stable now than they were five years ago, but many are concerned for the future. City revenues grew due to strong economic growth over the last five years, thanks in part to the economic contributions from people who live and work in cities. But the current need for infrastructure construction and maintenance limits resources available for other basic services. On top of that, public safety and health services compete for limited resources.

Cities are looking ahead to the next predicted economic slowdown and are facing the reality that they may need to reduce services.

City budgets strained

City residents rely on their local governments to provide the many services they care about, like transportation, affordable housing, and public safety. These services expand every year due to population growth, aging infrastructure, and changing community needs. In light of this, cities need access to stable and reliable revenue sources to make critical investments in crumbling infrastructure and to keep basic city services working for all residents.

How the state can help cities

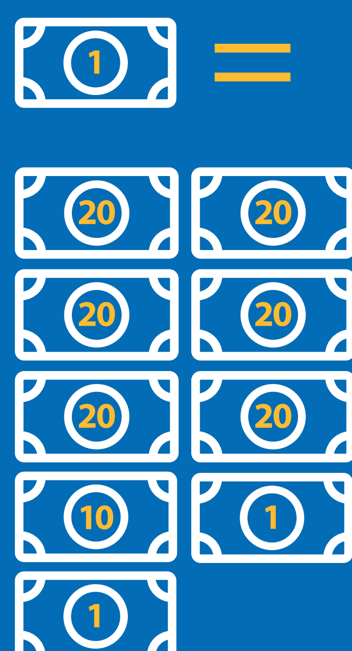
The Legislature can help by providing additional revenue tools to local elected officials and by honoring commitments to share revenues and fund infrastructure through the Public Works Trust Fund. Cities are worth the investment. For every $1 dollar in revenue the state shares with cities, cities generate at least another $132 back to the state.

The Legislature can also address property tax limits. Property tax revenue is one of the bedrocks of government funding. In fact, 93% of cities say that increasing the 1% cap would positively impact their community. We need to have a real conversation about the impacts of the 1% property tax cap and find a more meaningful cap that recognizes and honors communities' demands for services.

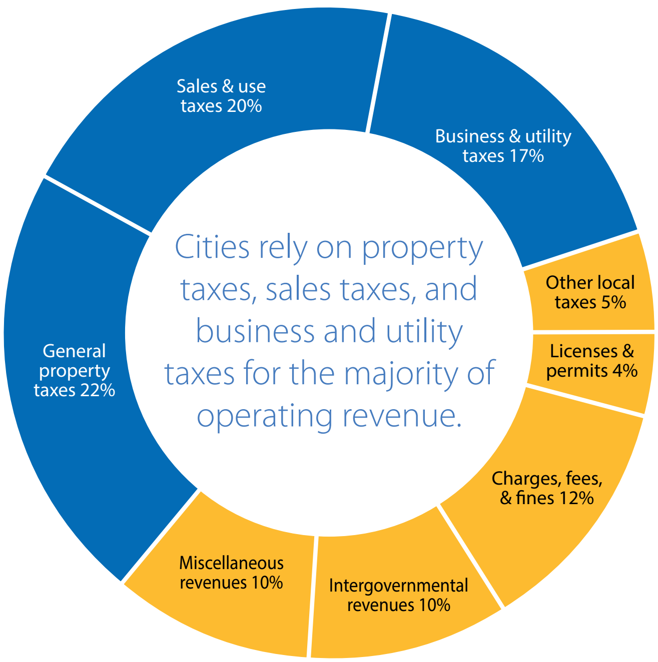
1/3

of Washington cities collect less than $300,000 in revenue per year.

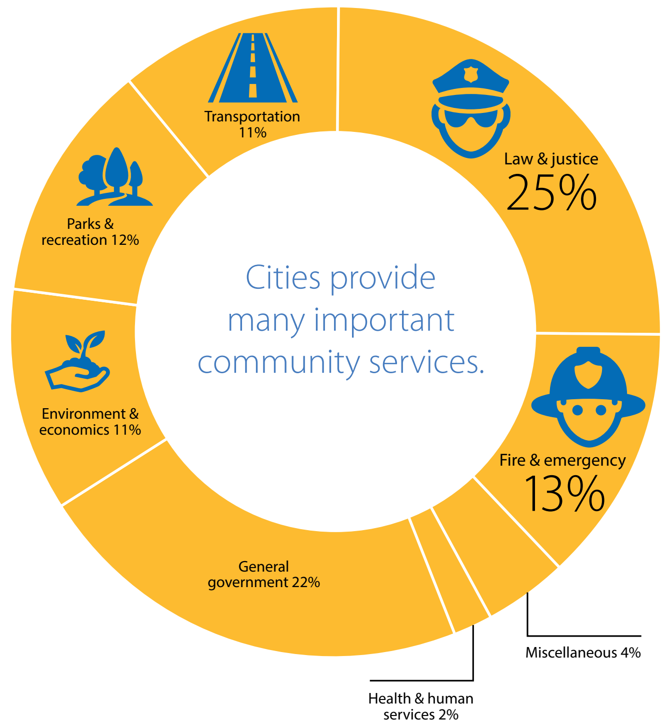
For every **$1** in shared revenue the state provides to cities, cities generate another **$132** back to the state.



City revenues



City expenditures



Arbitrary 1% property tax cap

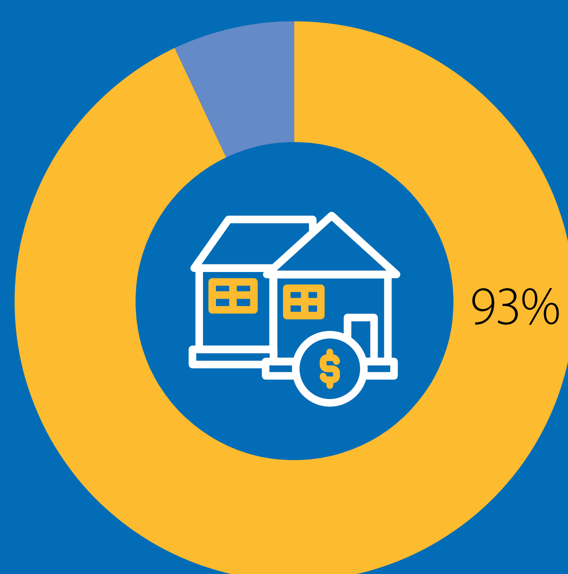
Property tax is the single largest revenue source for cities in Washington, comprising 22% of city revenues. However, annual property tax increases have been arbitrarily capped at 1% since 2001, which prevents revenues from keeping pace with inflation and population growth. Furthermore, the artificial cap strips authority from local elected representatives and channels revenue generation efforts into other, less reliable taxes and fees. Compared to sales tax, which fluctuates with the economy, property tax is a much more stable and reliable revenue source.

The 1% limit on annual increases has deeply strained many city budgets. Cities have the option of levy lid lifts and excess levies. However, both require voter approval and neither option permanently raises the annual increase in levies. In the first five years after the cap was introduced, cities lost an estimated $500 million in property tax revenue, and the devastating impacts continue to reverberate in city budgets.

The rising cost of real estate increases assessed values, which should positively influence city revenue (and the potential to support critical city services like infrastructure and public safety).

Unfortunately, that positive growth hits the 1% limit, leaving cities with revenues that can't keep up with the rising costs of community services.

93% of cities say that increasing the 1% property tax limit would have a significant, positive impact on their ability to meet their community needs.



Revenues are falling short of expenditures

Cities are extremely concerned about their revenue collections in the next five years. More than a third of Washington cities say their revenues are falling short of their expenditures, and the consequences of insufficient revenues are felt most dramatically in smaller, more rural cities.

Current revenues are not enough for many cities to support community expectations and priorities. On top of that, the price of goods and services purchased by local governments is rising much more quickly than consumer goods and services. That means it's getting more expensive to buy the same things.

Consequently, cities' tax structures are not keeping up with either the traditional rate of inflation or cities' actual growing costs. Most significantly, cities struggle to manage ever-increasing costs of basic services like complex public safety challenges, aging infrastructure, and responding to increasing public records requests.

57% of cities report that the amount and frequency of public records requests negatively impact their budgets. **48** cities spent more than **$100,000** in the last year to fulfill requests.

Funding the future

More cities are pessimistic about their ability to meet service needs and about signs pointing to an economic recession in the near future.

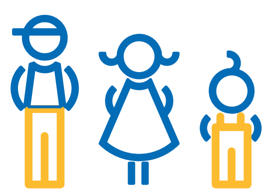
Without reliable state investment through state-shared revenues like liquor taxes, Municipal Criminal Justice Assistance, Fire Insurance Premium Tax Account, and programs like the Public Works Trust Fund, cities are forced to shift funding from other city service areas and are losing the ability to fund other services valued by their communities. Threats to core services require cities to shift resources from other critical departments, and ultimately limit opportunities for cities to invest in our communities.

Despite the recent economic growth, cities are depleting their capital and operating reserves in order to fund critical capital investments, public safety, affordable housing options, behavioral health and human services, and employee wages and benefits.

45%

of cities report that the conditions of their public parks are a significant problem *but are underfunded because of other pressing service needs.*

76%



of cities do not feel prepared to offer programs and services for their youth, *and **91%** of cities do not feel prepared to offer programs and services for their seniors.*

Conclusion

A structural imbalance remains between cities' revenue options and cities' obligations to fund critical services for residents. This imbalance means it is critical to continue to advocate for greater diversity in funding sources.

We also need the state to recognize both the intrinsic value of the services cities provide to Washington's residents and the economic value cities provide to the state's budget, and partner with cities to invest in infrastructure and city services.

Public safety

62%

of the state's commissioned law enforcement officers are city police

Cities are addressing emerging public safety demands—we need state support to help keep pace

In many ways, the mission of city public safety officials hasn't changed much over the years. What has significantly changed in recent years are the needs and demands of our communities and residents.

In Washington, cities are leading efforts to address evolving public safety needs. From adopting innovative widespread community policing policies, to training police officers to administer emergency opioid overdose medications, Washington cities are doing their part. Yet without additional state investments, cities struggle to address the visible and devastating symptoms of many emerging public safety challenges.

To address the vast changes in public safety and law enforcement, cities need:

01 Increased access to behavioral health services and additional state funding for localized behavioral health response options.

02 State action to ensure newly hired law enforcement personnel have timely access to the Basic Law Enforcement Academy (BLEA).

03 Greater investment in a holistic approach to public safety and behavioral health.

City law enforcement is called upon to address a new array of social problems

Law enforcement officers are frequently the first to arrive at a behavioral health emergency. Local law enforcement agencies grapple with the rising costs of responding to these increasingly prevalent emergencies.

In response, many of Washington's police departments have implemented creative and unique strategies to address the symptoms of the nationwide behavioral health crisis. But without significant state investments, city law enforcement lacks the necessary resources to adequately respond to the behavioral health needs of our communities.

Drastic state action is needed to assist the work of city law enforcement. Cities need the state to increase access to community behavioral health treatment options and provide additional resources for cities to expand jail diversion programs, medication assisted treatment programs, and other localized programs.

75%

of all cities identified the inability to access behavioral health resources as a leading problem for their community.

32%

Increase in drug-related arrests in Washington state over three years.

Cities face challenges with recruiting and retaining police officers

Demand for hiring new law enforcement officers continues to increase across the state, while qualified pools of applicants continue to shrink. Nearly 62% of cities with police departments stated they face challenges with hiring police officers. Increased retirements, employment competition, and population growth are all factors that have contributed to recruitment and retention challenges.

The role of police officers has also changed drastically in recent years, making it more difficult for agencies to recruit candidates who have the required skill set for 21st century policing. In addition to reforming recruitment practices at the local level, cities need state action to ensure newly hired law enforcement personnel are provided timely access to the state's Basic Law Enforcement Academy (BLEA).

Nearly **55%** of cities report fewer police officer job applicants.

Over **75%** of cities list "a lack of qualified applicants" as a primary challenge in hiring new officers.

In less than five years, **47%** of Washington law enforcement officers will be eligible for retirement.

Washington state could see a **2 to 1** ratio of outgoing to incoming officers over the coming years.

Cities spend more of their limited resources on public safety

Growing public safety needs have forced cities to shift resources away from popular central services such as parks and recreation, libraries, and street repair. Even so, city public safety needs continue to fall behind.

Cities prioritize public safety budgets to address:

- Washington's growing population
- Increasing behavioral health-related disturbances
- Recruitment and retention issues
- Overall spikes in wage and benefit costs

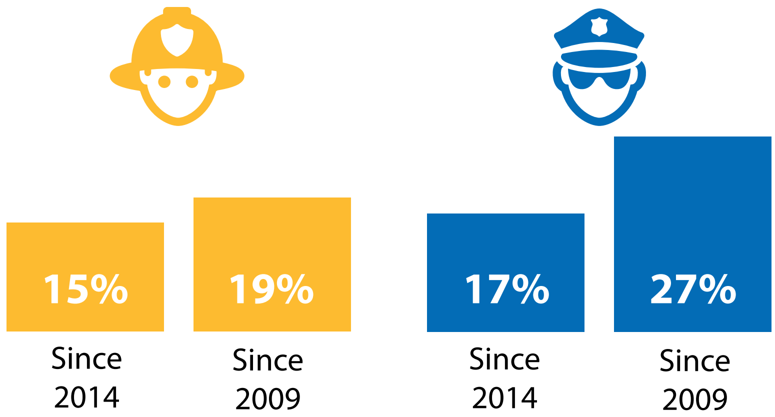
Public safety is the most common city budget area expected to increase in fiscal year 2020. Cities need greater investment in a holistic approach to address public safety and behavioral health issues.

Cities report public safety as the most common city budget area **expected to increase** in 2020.

Despite the efforts of cities, Washington ranks **last in the nation** for the number of law enforcement officers per 1,000 residents.

Cities are **shifting resources away** from popular central services such as parks and recreation, libraries, and street repair to address public safety concerns.

Wage change for city public safety employees



Conclusion

City public safety officers are undoubtedly on the front lines of Washington's collective social and community challenges. Cities are continuously adopting new innovative strategies and making new investments to address these growing public safety demands. However, cities can't continue to invest in our public without state support and the flexibility to address emerging budget gaps.

Human resources

City staff are key to providing core community services

Cities are people-intensive operations. Many of the services we count on in our cities are carried out by experienced staff. These are the people who invest their time and energy to deliver the best services to their neighbors and make a difference in their communities. Great employees are the key to providing excellent city services.

From public safety, to street maintenance, to recreational activities, residents rely on our dedicated public servants for a host of services. Cities recognize the value of competitive wages and benefits and know that in order to attract the best and brightest to careers in public service, cities must offer competitive compensation. However, cities around the state indicate concern that employee wage growth will continue to outpace city revenue growth.

New state wage and benefit mandates have further increased the cost of doing business for most cities, in addition to cost increases surrounding the competitive nature of Washington's job market. Despite rapid growth in many parts of the state, cities continue to struggle to balance community needs with budgetary constraints.

Overall, the growth in city staffing levels does not keep up with population increases in our fast-growing communities—meaning fewer city employees are serving more residents.

In most cities, revenue growth has not kept pace with wage growth

Many cities express concern over rising costs associated with employee wages. In the last five years, wages in 56% of cities have risen faster than city revenues. Furthermore, cities are worried about future costs associated with state mandates including increases to the state minimum wage, changes in prevailing wage polices, and state-led efforts amending standards on overtime eligibility.

Cities recognize the value of competitive wages, but need state leaders to consider the larger impacts on public budgets before finalizing new personnel and wage policies.

Since 2000, the number of city personnel per 1,000 population has decreased by **19%,** while Washington's population has grown over **28%.**

To address the changes in personnel, cities need:

01 State consideration of cities' budgets when implementing new personnel and wage policies.

02 Assistance funding employee benefits and wage increases mandated by the state.

In the last five years, wages of city employees increased **16%** on average, while **56%** of cities have seen revenues grow less than **16%.**

State expanded benefits have increased personnel costs across the board

In addition to the overall spike in labor costs, state-mandated increases of employee benefits are impacting city budgets throughout Washington. In the last few years, state increases to employer-paid pension programs and expanded workers' compensation benefits have required city employers to bear the burden of cost increases.

The statewide fiscal impact on local government is still unknown. New costs mandated by the statewide Paid Family and Medical Leave law will require cities to fund employer-paid premiums and additional expenditures to backfill positions, update and process payroll, cover collective bargaining costs, and process employee eligibility and benefits appeals.

Cities need the state to address the financial impacts created by mandates for new or expanded benefits to public employees.

Workers' compensation rates for firefighters have increased **13%** in the past three years and the rate for law enforcement grew by **23%.**

Since 2012, the PERS employer pension contribution rate has increased by **82%.**

City workforce growth trends mirror economic and population growth

Cities likely to maintain or decrease workforce

Cities with a population less than 2,500 indicate that they are much less likely than other cities to expand their workforce in the coming years. Most of these cities are small rural communities or metro mid-size cities outside of urban core centers.

Cities likely to increase workforce

Most of the cities that plan to increase the size of their workforce are in a better financial and budgetary position than average. Metro mid-size cities in urban cores, rural commercial and regional centers, and tourism hubs are more likely to increase the size of their workforce.

This data suggests that workforce growth is correlated with increased community need and economic activity. Cities facing both growth and decline need state support to help keep pace with community needs.

61% of cities say that expanding wages and benefits negatively impacts their budget outlook.

27% of cities expect to increase the size of their workforce in 2020.

Workforce growth is correlated with **increased community needs and economic activity.**

Conclusion

City workforce trends continue to mirror patterns in economic and population growth. However, increased wages and benefits instituted at the state level significantly impact the ability of cities to keep up with service demand.
Cities have no control over these significant cost drivers and must weigh the increased costs with either revenue increases or service reductions. Cities need the continued support and consideration of state lawmakers to ensure cities have the best personnel to effectively and efficiently serve our communities.

Infrastructure

Sustainable, fully funded infrastructure is the most pressing need for cities

Cities own a significant share of our state's critical infrastructure. Cities manage a diverse set of assets including streets, bridges, water mains, reservoirs, sewers, waste treatment plants, electrical lines, and more. While the state has historically provided necessary low-cost financing for these facilities, that funding is at risk. Cities need these vital shared resources to ensure that communities are safe, healthy, and thriving.

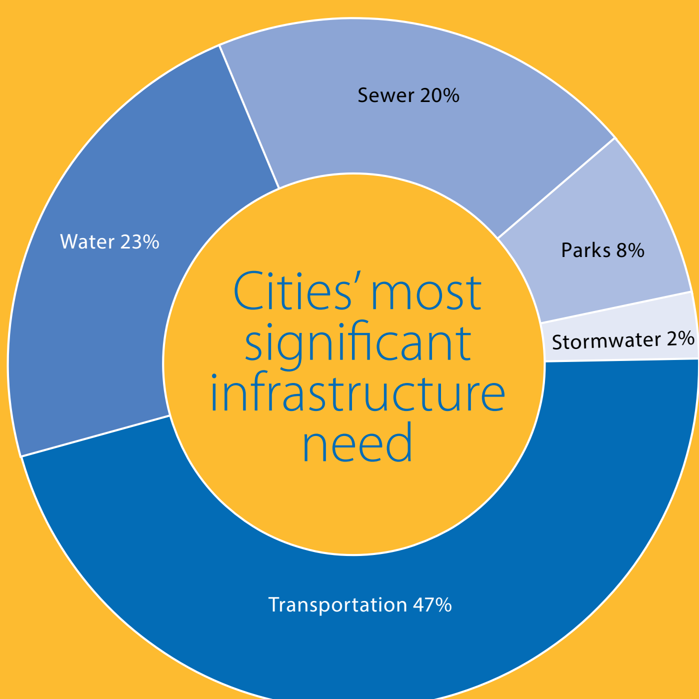
The Public Works Trust Fund is a crucial funding partner

Cities rely on state support for infrastructure financing. While financing needs can't be satisfied by any one program, the Public Works Trust Fund (PWTF) has long been the predominant funding mechanism for local infrastructure development. Full state funding for the PWTF helps local governments invest in the maintenance and preservation of our critical systems. Yet the PWTF has not been fully funded since 2009.

When it comes to updating and maintaining our state's infrastructure, cities need:

01 Full funding for the Public Works Trust Fund and the return of lost revenue streams.

02 Continued and reliable state support for critical basic infrastructure.



88%

of cities have concerns about funding their capital facilities plan.

57%

of cities say they need state help with infrastructure funding.

Infrastructure funding is a top problem for cities in Washington

Cities report that deteriorating infrastructure is the second most pressing problem impacting their overall community conditions. Infrastructure needs are even more dire in Eastern Washington—where cities identify infrastructure improvements as the most pressing need facing their communities. In many cities, improvement efforts are halted by the limited funds available from the state, like the PWTF. State funding help is the most effective way to mitigate both infrastructure deterioration and city budgetary constraints.

Cities need to keep their rates affordable for all residents and businesses. Secure and stable funding is the only way cities can maintain affordable utilities. The capacity of sewer networks is a growing concern as density increases and older systems struggle to accommodate higher flows. Much of the stormwater infrastructure is currently beyond its design life and urgently needs repair or replacement. Furthermore, small city public water systems cannot keep up with water quality regulations, meet demands for water supply, or maintain and operate the infrastructure effectively.

Cities rely on the PWTF to fund critical infrastructure improvements

The PWTF was created in 1985 to help local governments address infrastructure needs through a dedicated funding pool. The revolving loan program has provided more than $2.9 billion in loan assistance to local governments for critical infrastructure projects. The affordable infrastructure financing provided by the PWTF cannot be matched by the private sector. Due to the PWTF's financing options, both taxpayers and ratepayers save money. Unfortunately, state diversions and sweeps of these funds threaten cities' ability to provide critical infrastructure safety improvements.

60%

More than **60% of cities** have applied to receive a PWTF loan, yet 33% of applicants still report that **unmet infrastructure funding** is a major problem facing their community.

In the 2019 legislative session, legislators **diverted an additional $160 million** from the PWTF while, in the same year, the PWTF received loan applications totaling over $250 million. **Only $81 million in projects were funded.**

Only 2% of cities plan to decrease infrastructure spending despite other pressing service needs.

Although the PWTF has provided **$2.9 billion in loans** since the account's inception in 1985, there have been nearly **$2.9 billion in state diversions** and sweeps in the last decade.

Regional differences

Small and rural cities face a harder time funding infrastructure projects as a result of PWTF sweeps. These cities have a smaller tax base and lower average assessed property value, and therefore have a harder time attaining funding for maintenance and preservation. Smaller service areas also make utility rates too high to be affordable for residents.

Infrastructure investment promotes economic development and supports the state's economy

Cities rely on robust, functioning infrastructure that supports local economies, but face significant challenges in funding streets, sidewalks, water mains, sewer systems, and other infrastructure. Most of the infrastructure residents and businesses rely on goes unnoticed, but they cannot live, work, and play in our communities without it.

Basic infrastructure is necessary to support economic activity—businesses need reliable and affordable public infrastructure, like water and sewer systems to operate. It is also key to protecting our environment and quality of life that attract people and commerce to our state.

Cities own a significant share of our state's critical infrastructure.

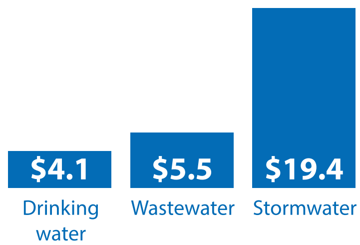
These assets help ensure:

- Public health and safety
- Robust commercial activity
- High quality of life for residents

Every **$1** invested in infrastructure generates **$1.50** in economic output.

42% of surveyed Washington registered voters said that increasing public investment in education, training, services, and public works was the best way for government to help the economy.

Top infrastructure need in Washington
(in billions)



Conclusion

As the state's population increases, cities face continued strains on aging and inadequate infrastructure systems. Cities need continued support from the state's Public Works Trust Fund in order to keep our roads, bridges, utility lines, water systems, and sewers in excellent working condition.

C grade

Washington's infrastructure isn't keeping up with these challenges. In 2019, the American Society of Civil Engineers gave Washington's infrastructure only a **C grade.**

Transportation

75%

of cities list transportation maintenance as one of the top three significant capital budget needs. *For a quarter of those cities, it ranks as the number one need.*

25% | 8%

25% of daily trips happen on city streets, yet cities receive only **8%** of the state transportation budget.

Most cities are unprepared for the rapid rise of alternative transportation modes, such as autonomous vehicles and micromobility devices (scooter and bike shares), which may require additional investments.

86%

of locally generated transportation funding comes from cities' unrestricted revenues such as property tax or sales tax—which competes with other critical spending needs, such as public safety and parks.

Cities are investing more than ever in transportation infrastructure, but can't close the $1 billion gap in maintenance and preservation costs

Cities own, manage, and maintain a significant share of our state's transportation system. More than a quarter of all daily trips happen on city streets. And, while cities are investing more than ever before, they are struggling to address the $1 billion funding shortfall that exists in maintenance and preservation costs. In addition, cities face a $900 million gap in unmet transportation system growth needs, including city streets that are designed for the transportation modes of the future—those that will transport people for their first or last mile.

Cities need greater local options and more state-shared resources to fully address transportation shortfalls

For city transportation systems to thrive, cities need:

01 Protection of existing transportation revenues and creation of more local revenue options.

02 Policy improvements like the expansion of Transportation Improvement Board programs, a federal fund swap option, and other changes to existing policies and programs.

03 A state transportation revenue package that increases resources for cities.

Transportation maintenance ranks as a top city budget need

Three-quarters of cities name transportation maintenance as one of the top three capital budget needs. For a quarter of those cities, street improvement and repair rank as the number one need. Similarly, nearly two-thirds of cities say maintenance is their greatest transportation need.

A recent study by the state's Joint Transportation Committee found that cities have stepped up to invest in their local transportation systems—providing nearly 80% of city transportation funding from local revenue. But while cities have increased their investment, state and federal government investments have declined at the same time. The result is a $1 billion per year maintenance and preservation funding gap. The costs of preservation and maintenance continue to outpace local revenues—creating a costlier backlog over time.

1.4

Washington cities **spent $1.4 billion** in construction, maintenance, and preservation projects in 2017.

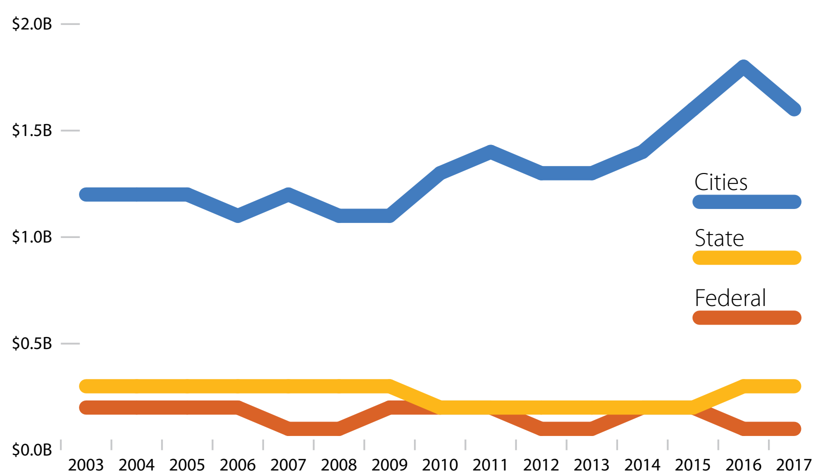
Cities rely on state resources for basic maintenance and preservation. Yet state investment has **remained unchanged, or even declined,** during the last 15 years.

The amount of state funding for city streets does not match their level of use

Cities are responsible for more than a quarter of the roadways that make up the state's transportation system. Most trips begin and end on city streets. City streets are an essential and basic part of our transportation network, connecting Washington residents and communities, and supporting our economy. While more than 25% of statewide travel occurs on city streets, cities only receive 8% of the state's transportation investment.

City streets interact with both the built and natural environments. This means streets must allow for utility infrastructure, residential and commercial uses, trees, and multiple users of various transportation methods—such as cyclists, transit riders, pedestrians, and people requiring accessible sidewalks. Cities have stepped up to invest local dollars in their streets; but as the complexities increase, so do the costs to maintain city roadways. City streets are a vital part of the state's transportation system and require increased state investments to address systemwide mobility needs.

Cities have increased spending on transportation, while state and federal spending has lagged.



Regional differences

While cities generate most of their transportation resources locally, they also rely on state-shared revenues to bolster their local spending. The Transportation Improvement Board (TIB) provides small cities (under 5,000 in population) with an asset management and pavement preservation program. TIB also provides grants to larger cities (over 5,000 in population) to fund or partially fund vital infrastructure projects. Unfortunately, greater funding is needed, as less than 40% of TIB grant applications were funded for fiscal year 2020.

Most cities are unprepared to meet the needs of new transportation methods

As a result of the strain a growing population puts on transportation networks, micromobility technologies have recently taken off in some cities. Micromobility is a category of very small (usually one passenger) light mode of transportation, such as dockless bikes and electric scooters. Micromobility provides new ways for residents to move throughout a community. The promise of this alternative transportation method is to close the public transportation gap between the first and last mile of trips—making investments in public transit more effective and reducing congestion.

The rapid rise of micromobility comes with an additional set of challenges and considerations for local decision-makers. Three-quarters of cities say they are unprepared for micromobility. Many cities are already feeling the pressure of adapting to the rapid rise of micromobility technologies. And almost all cities feel unprepared for the rise of autonomous (driverless) vehicles.

Prioritizing multimodal goals without raising additional or dedicated funding affects a city's foundational street responsibility—maintaining and preserving existing infrastructure to protect the city's investment. There are also important safety and liability considerations when sidewalks and bike lanes become crowded and more complex. Balancing these competing, but often compatible, interests is increasingly challenging.

1/4

of cities report that they are somewhat prepared for the emergence of micromobility transportation modes.

In Bellingham, which prioritized a transportation mode shift to a highly connected pedestrian and bike network, street resurfacing is typically **only completed when combined** with a non-motorized project like adding a bike lane.

Conclusion

City responsibilities for streets come with many considerations, including how to accommodate multimodal transportation goals, how to increase access for individuals with differing abilities, and how to smoothly manage the complexities of the built and natural environments. Construction costs, inflation, and competition for increasingly scarce local revenue reduce resources available to invest in maintaining city transportation infrastructure. When cities can't invest enough in preserving the existing system, lifecycle costs compound over time—creating a costlier system for all users.

Affordable housing & homelessness

Cities face two complex challenges that intertwine — lack of affordable housing and increased homelessness

In the last five years, cities have been increasingly asked to handle service areas that have historically fallen outside their traditional fiscal responsibility—homelessness and behavioral health response. Both are exacerbated by the affordable housing crisis happening across the state.

Washington is missing more than 100,000 housing units for the anticipated population increase alone, to say nothing of the urgent need for workforce housing and for those at lower income levels. Cities are struggling to address the absence of affordable housing in their communities and lack resources to help the growing number of people experiencing homelessness who are sheltering in parks and on city streets.

The state should support city-tailored solutions to increase affordable housing options for all income levels and make additional investments in homelessness crisis response.

Cities need:

01 New councilmanic taxing authority for affordable housing, such as an optional sales tax or real estate transaction tax.

02 Support and incentives for cities that are working to expand the variety of housing in traditionally single-family neighborhoods.

03 Increased state funding for homelessness crisis response.

80%

of cities need state funding to support affordable housing programs and local planning efforts.

3/4

of cities are struggling to handle the costs and impacts of the homelessness crisis in their communities.

The challenge of affordable housing is too great for local budgets alone.

77%

of cities list a lack of low income and affordable housing **as a problem** in their community.

1/3

of cities indicate that affordable housing-related expenses are having **a negative impact** on their budget.

41%

of cities are **unprepared** to meet the increased demand for affordable housing.

Cities need state investments to address the statewide lack of affordable housing

Cities rank the following as major problems in their community:

- Availability of affordable housing
- Infrastructure conditions

Eighty percent of cities want direct state funding for housing programs to address the challenge, as well as additional local revenue options for affordable housing.

Cities need resources to handle the impacts of the homelessness crisis in their communities

Cities are increasingly finding themselves entering the homeless crisis response system not only as funders, but as service providers. We are entering uncharted waters in attempting to address the ballooning number of unsheltered people in our communities. There are no existing best practices for funding, setting up, or prioritizing individuals into managed encampments, including safe parking programs or tiny home villages. Meanwhile, the existing shelter system is at capacity and turning high numbers of unsheltered people away on a nightly basis.

Washington, and the nation, are facing a crisis:

- A steadily growing unsheltered population
- Lack of shelter beds
- Lack of affordable housing
- An overly burdened system

The costs of responding to the homelessness crisis across city services are significant:

- Responding to increased police calls
- Cleaning up parks and unsanctioned public encampments
- Creating and staffing homeless outreach teams
- Managing mitigation sites

Over half of cities report fiscal impacts to public safety and parks departments, but many cities cite impacts across all departments **due to the significant budget impact** of homelessness response.

1/3 of city legal departments have also experienced impacts as cities try to navigate the changing legal landscape.

"The entire city staff, organization, and community has been impacted [by homelessness response]."

—Port Angeles, WA
Population: 19,872

Conclusion

Cities across the state are stepping up to address both the affordable housing and homelessness crises. Cities will respond when given new options to generate revenue for affordable housing—as proven by early adoption of the new sales tax credit authority provided in 2019 by the Legislature in **HB 1406.** However, the challenge is too great for local budgets alone. Cities need increased state resources to address the scale of the housing crisis to cause meaningful change at the local, regional, and state levels.

Economic development

Washington cities need financing options to boost economic growth and opportunity for residents

City leaders repeatedly name economic development as one of their highest priorities. Cities drive our state's economy and to do so they need to attract, grow, and support diverse businesses, commercial centers, and industry in our communities. City leaders also want to ensure residents have local employment opportunities and a healthy and diverse tax base. To do all of that, and achieve the shared goal of maintaining and enhancing a robust economy, cities need a diverse economic development toolkit to encourage commercial and economic growth in their communities.

Broadband infrastructure is critical to spur economic development

Sustainable, reliable infrastructure is the foundation for building an economy. Cities overwhelmingly report the need for state investment in local broadband internet infrastructure projects to help spur local economic development.

Broadband is the "superhighway" for economic development—it's an essential component of infrastructure that gives all residents access to opportunity. Small businesses and organizations in cities need infrastructure to process transactions, post job opportunities, buy and sell products, and participate in specialized trainings and professional development opportunities online.

Access to broadband and advanced telecommunications infrastructure is one of the most pressing needs for cities under 7,500 in population. These communities' economies rely primarily on retail, tourism, and commuter industries. To support cities and their unique needs, funding for broadband infrastructure is critical.

71%

of cities face significant challenges to local employment opportunities, due largely to low economic development investments.

94%

of cities report that creating new and enhanced state programs to help spur economic development would have a significant positive community impact.

54%

of cities report broadband infrastructure as a significant barrier to economic development in their community.

City economic development opportunities are unique and diverse

Washington cities are diverse in their available industries and economic development needs. However, most cities need opportunities for local economic development to provide more local employment opportunities to their residents.

City economies are diverse in nature—encompassing industries of agriculture, tourism, aviation, technology, and military. Cities that report tourism and hospitality as their primary industry also have the lowest rates of local employment opportunities. Conversely, cities with technology and telecommunications as the primary industry rarely struggle to provide local employment opportunities.

These varying trends highlight the diversity in economic needs across cities and show that a single solution cannot adequately meet the needs of all cities.

Cities' access to a more robust and diverse toolkit will encourage economic development

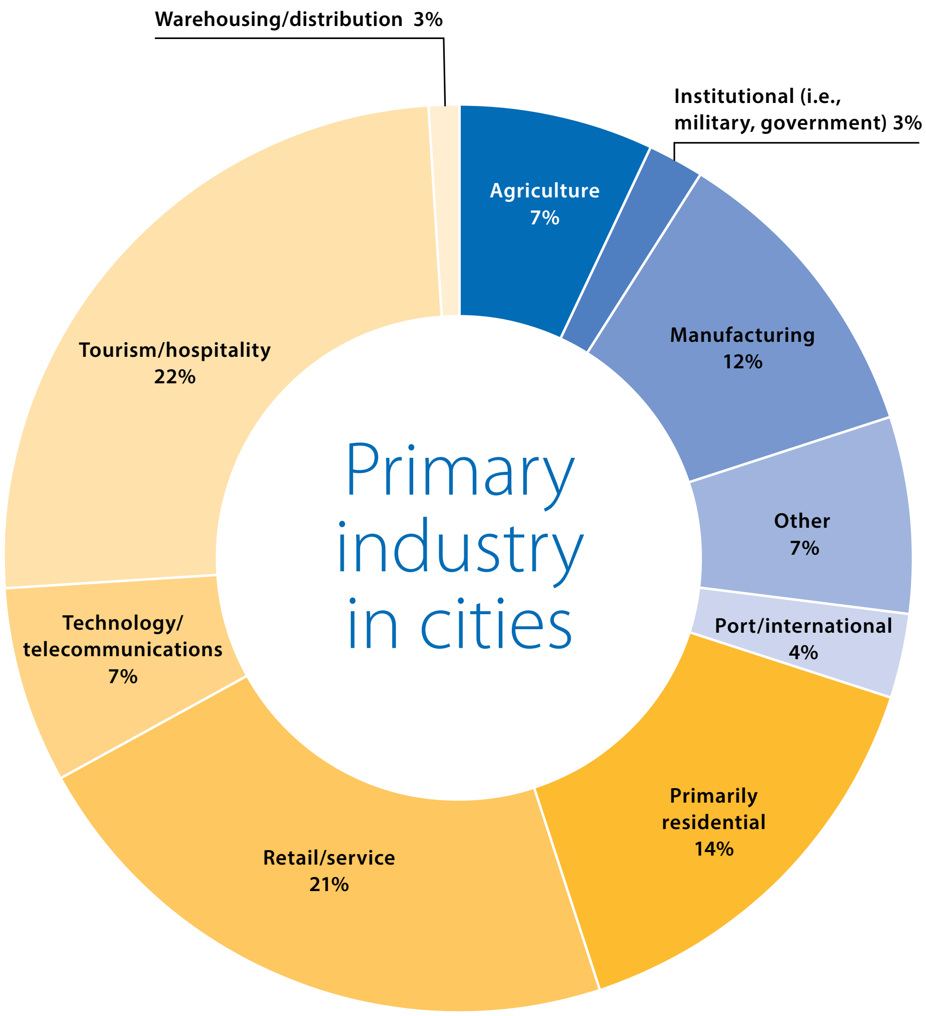
Cities need:

01 Access to reliable broadband infrastructure to attract new businesses.

02 State support to invest in infrastructure to support diverse and unique industries.

03 New tools such as Tax Increment Financing to incentivize local investments.

City industries are diverse and have differing economic needs. A single solution from the state cannot adequately meet the vast variety of needs in all Washington cities.



50%

of businesses and organizations say broadband is essential infrastructure for them to maintain their business in any given city.

77%

of cities report that inadequate street infrastructure is a significant barrier to economic development.

New tools can help support economic development

Cities report that Tax Increment Financing (TIF) options can dramatically impact the economic health of their communities. TIF is a method of using property tax collections within designated areas to finance public infrastructure improvements. TIF, and programs like TIF, have helped many states encourage new investments from private industry and improve overall economic health. Small towns and rural cities see TIF as a critical tool that could help spur new investment in their local economy.

TIF is one example of an economic development tool cities seek to leverage. The state has also utilized "tax increment financing lite" programs such as the Local Revitalization Fund (LRF). Under the LRF program, cities use sales tax credits from the state to fund infrastructure investments that support new commercial development.

50%

of Washingtonians feel that the economic conditions of their community are worse off or have not improved in the last two years compared to the rest of the state.

$359 million

In 2017, 12 cities with LRF-funded projects reported a state benefit of $359 million.

Conclusion

Maintaining and enhancing Washington's economy is a widely shared goal. Cities are particularly critical in this quest because they contain so much of our state's economic activity. However, cities have limited tools available to support continued economic development. Infrastructure investment is one of the most important ways that cities can encourage commerce and industrial development, but it is also one area where city funding is stretched most thinly. Our state also lacks a key tool available in almost every other state—Tax Increment Financing. TIF (at its most basic) is a way for economic growth to pay for itself. Every city's economic development goals are unique based on differing strengths and needs—cities need diverse tools to achieve these unique goals.

State of the Cities conclusion

Cities are vital to the state's economic prosperity and serve as hubs for innovation. They are where businesses are located and where people live and gather. City services, from streets and infrastructure to public safety and parks, are essential to Washingtonians' quality of life.

The findings and recommendations in this report are intended to continue the conversation about how the state can assist cities and ensure the long-term economic health of the state. Cities need state assistance with strategies to help with infrastructure funding, local revenue options, and the flexibility to adequately fund city services and spur economic development.

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