



CITY OF KIRKLAND

Department of Finance & Administration

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MEMORANDUM

To: David Ramsay, City Manager

From: Tracey Dunlap, Director of Finance and Administration

Date: July 23, 2008

Subject: Tax Burden Study

At the May 29, 2008 Budget Study Session, the City Council approved contracting with Berk & Associates to update Kirkland's 2001 Tax Burden Study. The goal of the update is to provide data and interpretation to support the City of Kirkland's upcoming budget discussions. The attached report contains a Summary of Findings, followed by a detailed compendium of analytic findings containing many charts and figures that serve as the basis for the findings.

The study addresses two key concepts: tax contribution and tax burden. *Tax contribution* addresses the amount that various activities contribute to Kirkland's overall fiscal well-being and *tax burden* is the amount that individual taxpayers bear or pay of each tax category. Both perspectives are informative as most financially-strong cities are strong because they have a robust urban fabric that relies on the interconnections between residents and businesses. Kirkland is attractive to residents because of proximity to jobs and amenities, including a broad range of retail, restaurants, and other commercial services. At the same time, Kirkland is attractive to a broad range of businesses because of its strong resident base and talented workforce.

The key findings from the study include:

- The vast majority of City general fund tax revenues come from three sources: sales tax, property tax, and utility tax. In 2007, these sources combined to generate nearly \$34 million of Kirkland's General Fund revenues of \$54 million. Kirkland's expansion of business license fees and addition of the license fee surcharge has received a good deal of attention in recent years, but in contrast to the above sources, revenues from business license fees and surcharge are quite modest—roughly \$1.5 million.
- There has been a shift in tax contributions from commercial toward residential from 1997 to 2007. In 1997, Kirkland's residents contributed 50% towards the General Fund revenues discussed above. That share increased to 59% by 2007. Conversely, the share contributed by commercial payers decreased from 50% to 41%. There were three major reasons behind the shift:
 - Shifts of property tax burden onto households as residential values have increased more than commercial values;
 - Larger increases in utility tax payments by households; and
 - Increases in the overall number of households outpaced increases in commercial activity – population has increased while employment has decreased over this period.
- Overall, Kirkland has taken three significant steps to raise taxes in recent years to maintain and/or enhance City services: (1) tapped \$1.8 million of its banked property tax capacity; (2) increased its business license fee and added a business license surcharge; and (3) increased selected utility tax rates. Generally, households and small businesses have equally shared in the increased City tax burden. Large and medium-

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sized businesses have seen a much more modest impact from these changes. The more modest increase on mid- to large-size businesses is due to the structure of the City's business license fee and surcharge.

- Kirkland's 2001 Tax Burden Study found that Kirkland had lower tax burdens than most, if not all, of its peers. Due to the actions discussed above, tax burdens in Kirkland now tend to fall in the middle of the range. Some peer cities have higher taxes, some have lower. Compared with the cities of Bellevue, Redmond, Renton, Kent, and Bothell, total taxes paid in Kirkland are somewhat more skewed towards residential payers than commercial payers.
- The City's revenues have been able to keep up with demands for City services through policy choices to raise taxes and the natural growth in its core tax bases (taxable retail sales, utility revenues, and new construction assessed value). Some of the factors that will present fiscal risks for the City in the future include:
 - The growth in the City's sales tax base has been significantly - concentrated in auto sales and construction activity, two sectors that can be volatile, subject to local economic conditions.
 - The majority of the City's banked property tax capacity has been used and so the ability of property taxes to grow will be limited to 1% plus the impact of new construction.
 - The business surcharge revenues are tied primarily to the number of businesses in the City and thus will likely grow at very modest rates absent changes in the fees or structure (e.g., a charge per employee/FTE or B&O tax).
 - Outside of construction and auto sales, sales taxes have grown modestly, and in some instances remained largely unchanged over time, suggesting that the City's core commercial base is not growing. If this continues, the trend in contributions will likely continue to put larger shares of the fiscal responsibility on the City's residential base.

The consultant's from Berk & Associates will be attending the August 5 City Council meeting to present these findings and respond to questions.

Kirkland Tax Burden Study Update



Draft Findings DISCUSSION MATERIALS



July 23, 2008

Key Findings

This 2008 *Tax Burden Study* seeks to support Kirkland's future budget discussions by shedding light on a series of key questions regarding tax contributions and tax burdens in Kirkland. In their most distilled form, we present key findings of the study in the form of answers to six questions:

Where do Kirkland's revenues come from?

The vast majority of City tax revenues come from three sources: sales tax, property tax, and utility tax. In 2007, these sources combined to generate nearly \$33 million of Kirkland's General Fund revenues.

Kirkland's expansion of business license fees and addition of the license fee surcharge has received a good deal of attention in recent years, but in contrast to the above sources, revenues from business license fees are quite modest—roughly \$1.5 million.

Has the City seen a shift in residential versus commercial tax contributions?

Yes. From 1997 to 2007, resident's share of contribution has increased significantly. Berk & Associates estimates that, in 1997, Kirkland's residents contributed 50% towards the General Fund revenues discussed above. That share increased to 59% by 2007. Conversely, the share contributed by commercial payers decreased from 50% to 41%. There were three major reasons behind the shift:

- Shifts of property tax burden onto households as residential values have increased more than commercial values;

- Larger increases in utility tax payments by households; and
- Increases in the overall number of households outpaced increases in commercial activity -- population has increased while employment has decreased over this period.

While the overall residential contribution share has increased, what has happened to individual taxpayer burdens in recent years?

Overall, Kirkland has taken three significant steps to raise taxes in recent years to maintain and/or enhance City services:

- It tapped \$1.8 million of its banked property tax capacity;
- It increased its business license fee from \$25 per year to \$100 per year, and it added a business license surcharge; and
- It increased selected utility tax rates.

Generally, households and small businesses have equally shared in the increased City tax burden. Large and medium-sized businesses have seen a much more modest impact from these changes. From 1997 to 2007, a single family household and a small business might have seen an increase in City taxes in excess of 30% (in inflation-adjusted terms). Medium and large businesses, on the other hand, might have seen increases ranging 2% to 10%.

The more modest increase on mid- to large-size businesses is due to the structure of the City's business license fee and surcharge. On a per-employee basis, the surcharge is much smaller for a business with 130 employees (\$20

Key Findings

per employee) than it is for a business with 7 employees (in excess of \$100 per employee).

How do Kirkland's tax burdens compare with those found in other cities?

Kirkland's 2001 *Tax Burden Study* found that Kirkland had lower tax burdens than most, if not all, of its peers. Due to the actions discussed above, tax burdens in Kirkland now tend to fall in the middle of the range. Some peer cities have higher taxes, some have lower.

How does Kirkland's balance of residential versus commercial burdens compare with the balance struck by other cities?

Compared with the cities of Bellevue, Redmond, Renton, Kent, and Bothell, total taxes paid in Kirkland are somewhat more skewed towards residential payers than commercial payers.

What fiscal risks might the City face in the future?

The City's revenues have been able to keep up with demands for City services through policy choices to raise taxes and the natural growth in its core tax bases (taxable retail sales, utility revenues, and new construction assessed value). Some of the factors that will present fiscal risks for the City in the future include:

- The growth in the City's sales tax base has been significantly

concentrated in auto sales and construction activity, two sectors that can be volatile, subject to local economic conditions.

- The majority of the City's banked property tax capacity has been used and so the ability of property taxes to grow will be limited to 1% plus the impact of new construction. Using the banked capacity provided the largest increase in tax revenues of any City policy changes in the past seven years.
- The business surcharge revenues are tied primarily to the number of businesses in the City and thus will likely grow at very modest rates absent changes in the structure or fees.
- Outside of construction and auto sales, sales taxes have grown modestly, and in some instances remained largely unchanged over time, suggesting that the City's core commercial base is not growing. If this continues, the trend in contributions will likely continue to put larger shares of the fiscal responsibility on the City's residential base.

Summary of Findings



Summary of Findings - Background

BACKGROUND

In June of 2008, the City of Kirkland contracted with Berk & Associates to perform an update of Kirkland's 2001 Tax Burden Study. As was true of the City's 2001 study, the goal of the 2008 study is to provide data and interpretation to support the City of Kirkland's upcoming budget discussions.

This Tax Burden Study is designed to offer a level of continuity with the City's 2001 study, following the same general framework, but extending the analysis in certain areas while scaling it back in others.

The following summary of findings is organized to answer a series of key questions:

- Where do Kirkland's revenues come from?
- How do Kirkland's households and businesses contribute to City revenues?
- Has the City seen a shift in tax contributions?
- How have tax burdens shifted in Kirkland in recent years?
- How do Kirkland's tax burdens compare with those found in other cities?
- How does Kirkland's balance of residential versus commercial burdens compare with the balance struck by other cities?

- What fiscal risks might the City face in the future?

Following the Summary of Findings, readers will find a detailed compendium of analytic findings. This compendium includes *many* charts and figures that serve as the analytic basis for the findings presented here. The final section of the report is the Technical Appendix, which includes discussion of the methods and assumptions that underlie the analysis.

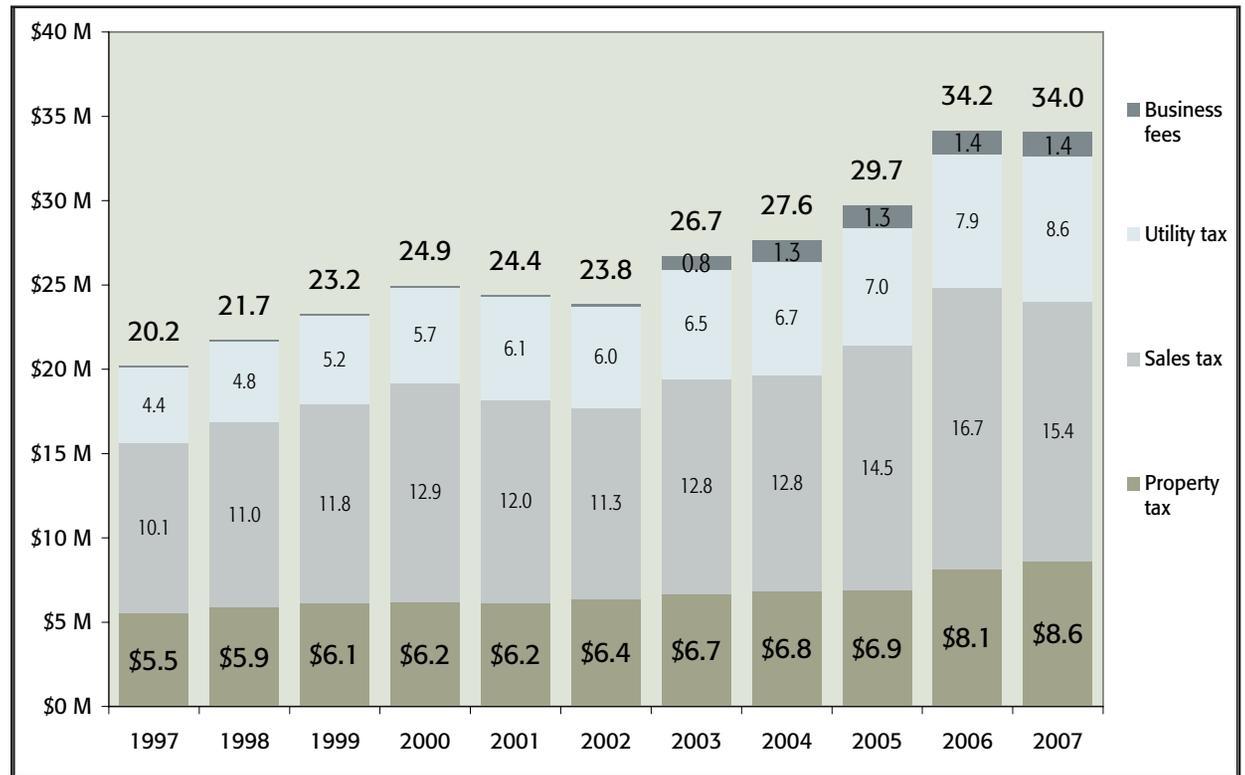
Summary of Findings - Tax Contribution

WHERE DO KIRKLAND'S REVENUES COME FROM?

Like most cities, the vast majority of Kirkland's general operating revenues come from three sources: local sales tax, property tax, and utility tax.

From 1997 through 2007, Kirkland's major sources of General Fund tax revenues have increased \$13.8 million (Exhibit 1). This translates to compounded annual growth of 5.4% per year.

Exhibit 1: City of Kirkland Historic General Fund Tax Revenues



Source: City of Kirkland; Washington State Auditors Office; Berk & Associates, 2008



Summary of Findings - Tax Contribution

In inflation-adjusted terms (viewing historical General Fund revenues in 2008 dollars), General Fund tax revenues have increased by \$7.6 million (Exhibit 2). This translates to an average *real* increase in revenues of roughly 2.5% per year.

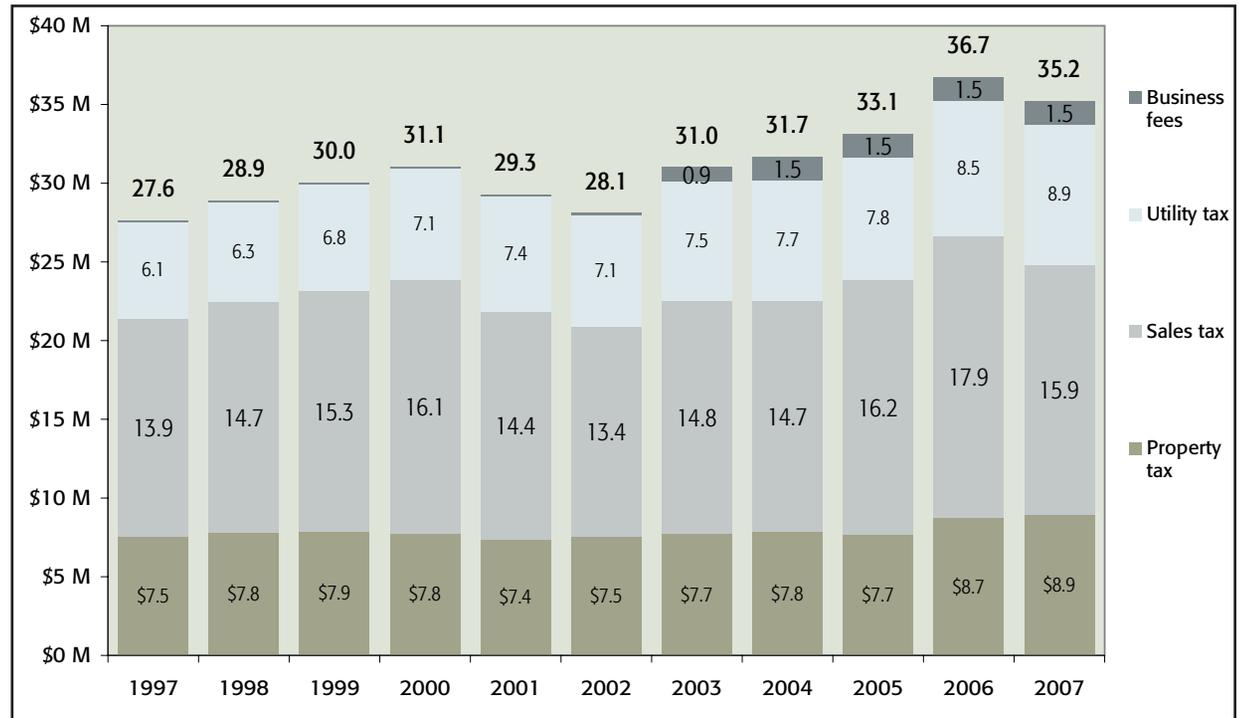
The largest contributor in the inflation-adjusted increase was the utility tax (\$2.8 M) followed by sales tax (\$2.0 M) and then property taxes and business license fees (both growing by \$1.4 M).

Sales tax revenue gains were largely a product of increased auto sales and increased construction, but gains in the remaining three revenue streams were largely due to City actions:

- Increased Business License Fee and Business License Surcharge;
- Selected increases to utility tax rates; and
- Use of \$1.8 million of Kirkland’s banked property tax levy capacity.

Note that if the City had not used \$1.8 million of its banked property tax capacity, property tax revenues in the City would have *decreased* by \$400,000 over the period, in inflation-adjusted dollars.

Exhibit 2: City of Kirkland Historic General Fund Tax Revenues - Inflation-Adjusted (2008\$)



Source: City of Kirkland; Washington State Auditors Office; Berk & Associates, 2008

Sources of Real General Fund Tax Increases (1997 to 2007)

Inflation-Adjusted Increase in Tax Revenues (Millions of \$2008)	
Utility tax	\$2.8 M
Sales tax	\$2.0 M
Property tax	\$1.4 M
Business fees	\$1.4 M
Total Gain	\$7.6 M



Summary of Findings - Tax Contribution

One major finding of Kirkland's 2001 *Tax Burden Study* was that the City was becoming increasingly reliant on sales taxes from construction and auto sales. By taking the above actions, in effect, the City took steps to dilute that reliance.

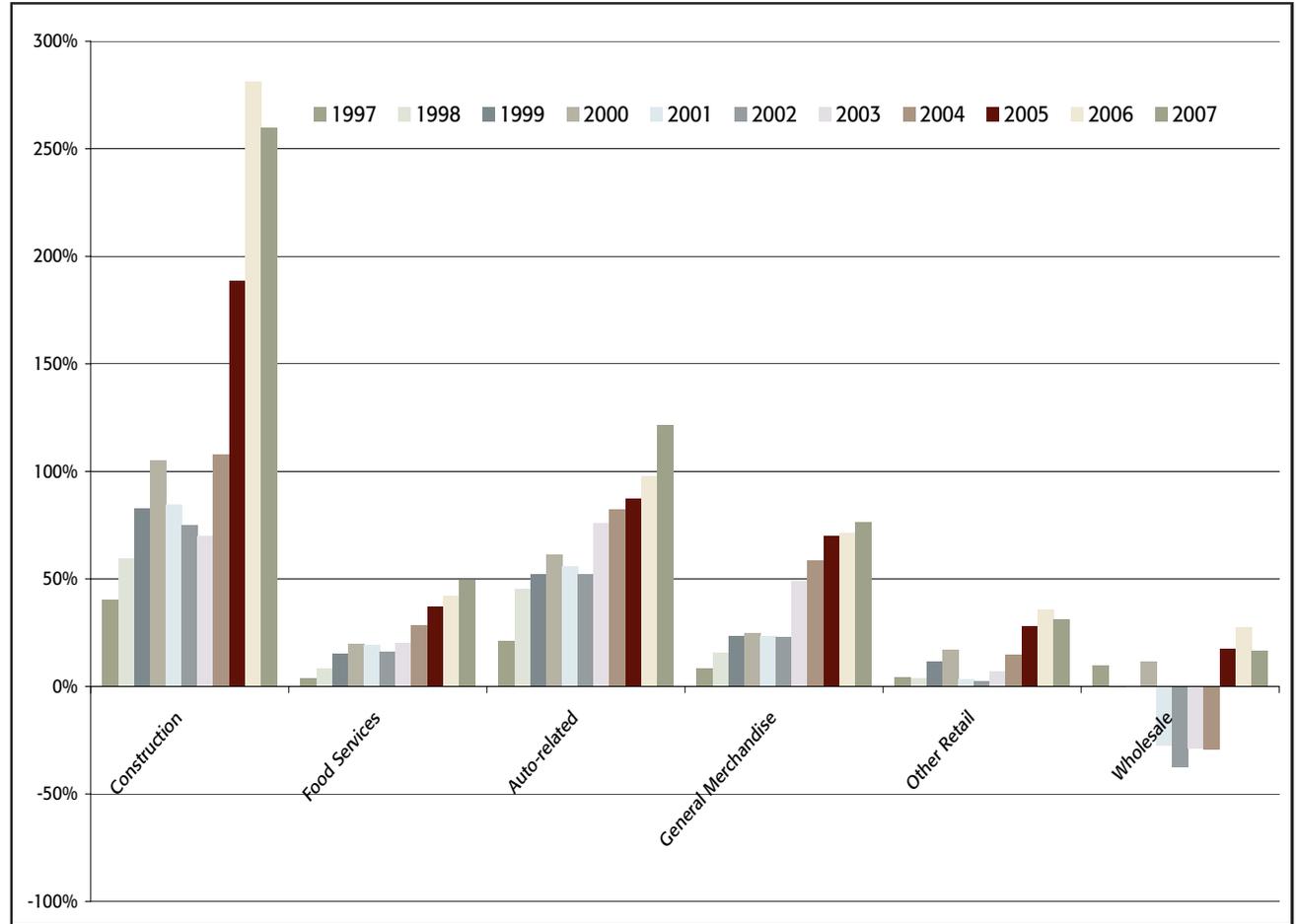
Due to continued strong growth in auto sales and construction, however, Kirkland remains highly dependent on these two sources of revenue growth.

Taxable retail sales from construction activities grew by more than 250% from 1997 to 2007 (growing from \$99 million in taxable activity to \$358 million in 2007). This translates to annual growth of more than 12% per year in actual dollars, and more than 9% in inflation-adjusted terms.

Auto sales did not show the same kind of skyrocketing growth, but sales did increase by 120% in actual dollars (7.5% per year in actual terms, and more than 4% per year in inflation-adjusted terms).

Exhibit 4, on the following page, shows how Kirkland performs in terms of its ability to capture retail purchases. In the exhibit, horizontal bars indicate the number of "typical person's expenditures" Kirkland captures within a given retail sector. The dashed vertical line represents Kirkland's population for the

Exhibit 3: Cumulative Change in Sales Tax Revenues Since 1996



Source: Washington Department of Revenue; Berk & Associates, 2008



Summary of Findings - Tax Contribution

same year (47,890 residents in 2007).

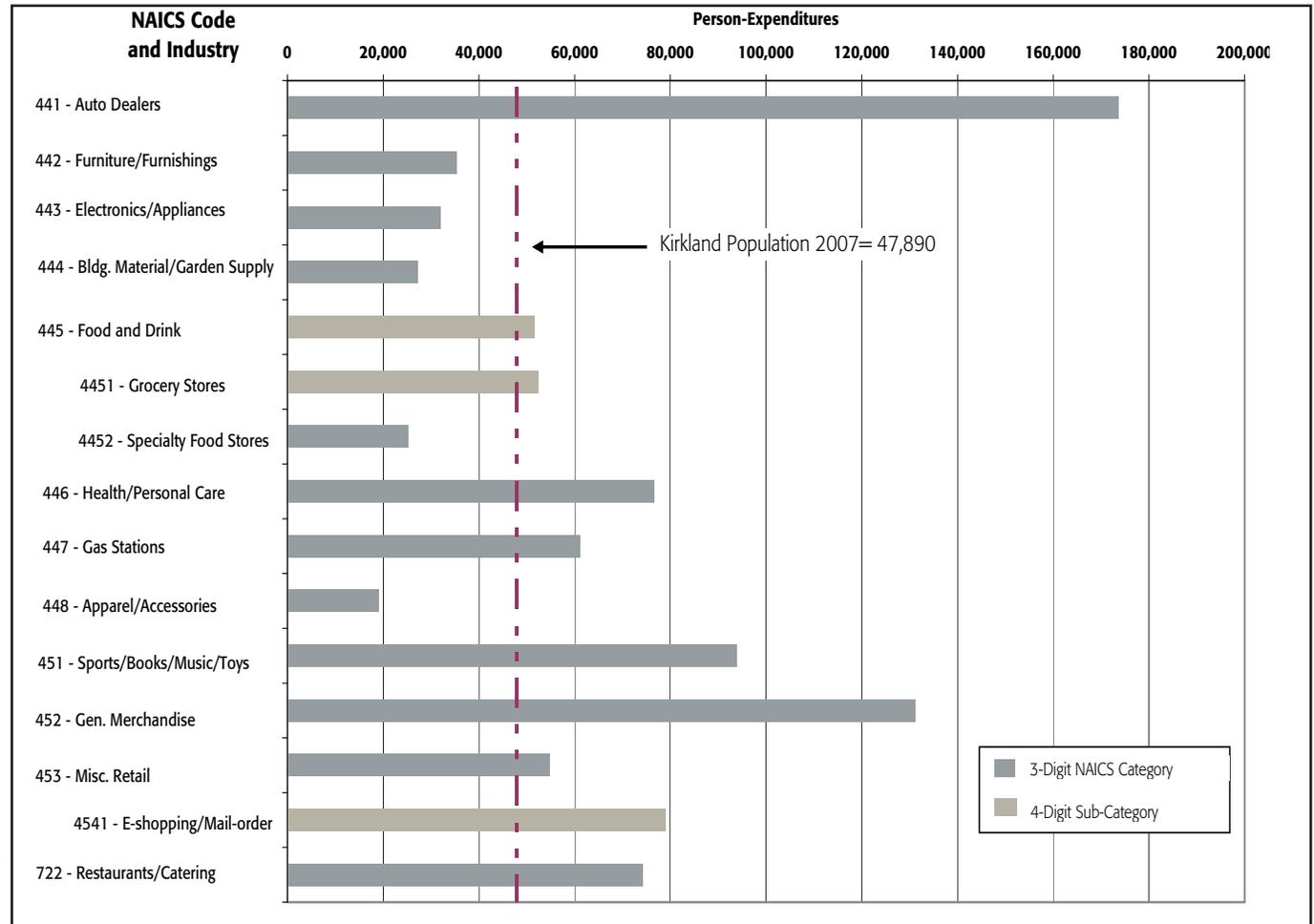
In this analysis, a *person-expenditure* is defined as the total retail spending in a given category in King County divided by the county population—generating an estimate of the average yearly expenditure per resident.

In the places where the person-expenditures-captured exceed Kirkland’s population, one can say that the businesses in that sector are “importing” purchases from outside the City (the business captures the equivalent of all of the purchases made by city residents, *plus* they draw in purchases from areas beyond).

Overall, within retail sectors, Kirkland is strongest in its capture of sales from *Auto Dealers* and *General Merchandise*, the latter category being the one that includes Costco.

Other strong sectors for the City (sectors where captured person-expenditures exceeded Kirkland’s population) included Health/Personal Care, Sports/Books/Music/Toys, E-shopping/Mail-order, and Restaurants.

Exhibit 4: Person-Expenditures Captured in Kirkland by Industry



Source: Washington Department of Revenue; Berk & Associates, 2008



Summary of Findings - Tax Contribution

HOW DO KIRKLAND'S HOUSEHOLDS AND BUSINESSES CONTRIBUTE TO CITY REVENUES?

This study focuses on the City of Kirkland's taxing policy from the perspective of (1) the *burden* that individual payers bear (i.e. How much does each payer pay in the way of city, regional, and state taxes?) and the (2) *contribution* that various activities make to Kirkland's overall fiscal well-being.

To illustrate the difference between the notions of *burden* and *contribution*, it is helpful to consider an example: the hypothetical automobile dealership we use as one of our representative taxpayers for purposes of tax burden assessments. According to our analysis, the hypothetical auto dealer pays roughly \$18,500 in taxes each year to the City of Kirkland. This \$18,500 reflects property and utility taxes paid by the dealership, business license fees, and sales taxes on taxable purchases *made by the business* (as opposed to purchases made by consumers *at* the business).

When we look at the question of *contribution*, on the other hand, we are considering the *revenue the City receives* as a result of the auto dealership being located within city boundaries. In the case of an auto dealership, it is clear that the dealership plays a large role in the fiscal well-being of the City. With gross revenues of roughly \$54 million, City sales taxes collected at the hypothetical dealership would probably exceed \$450,000 (a figure vastly larger than the direct tax *burden* the dealership faces).

Because auto dealerships draw customers from a very large area, and because

those sales tax dollars could very easily accrue to another jurisdiction if the dealership were to relocate to another city, one can safely say that the City of Kirkland relies on the existence of the auto dealer for a large portion of City revenues. Thus, from a perspective of *contribution*, the auto dealer plays a very important role in the City's fiscal health.

At the other end of the commercial spectrum, one might consider a typical neighborhood convenience store. If the owners of a neighborhood convenience store were to move their business to another city, then one would not expect to see a marked reduction in revenues to the City. Residents of the neighborhood might do a *bit* more of their shopping outside the city (you might choose to stop and buy chips at a convenience store near work), but for the most part, residents' purchases of convenience items would be redistributed to other retail locations within the city.

In the convenience store example, one could argue that neighborhood residents are the *source* of sales tax revenues collected at the convenience store, and therefore, from a perspective of revenue *contribution* to the City, that dynamic should be recognized.

In reality, most financially-strong cities are strong because they have a robust urban fabric that relies on the interconnections between residents and businesses. Kirkland is attractive to residents because of proximity to jobs and amenities, including a broad range of retail, restaurants, and other commercial services. At the same time, Kirkland is attractive to a broad range of businesses because of its strong resident base.

Summary of Findings - Tax Contribution

Has the City Seen a Shift in Tax Contributions?

Recognizing how interlinked residents and businesses are in the City, Berk & Associates analyzed the tax contribution that residents and businesses have made to City operations. Berk's analysis focused on Kirkland's four major General Fund tax sources:

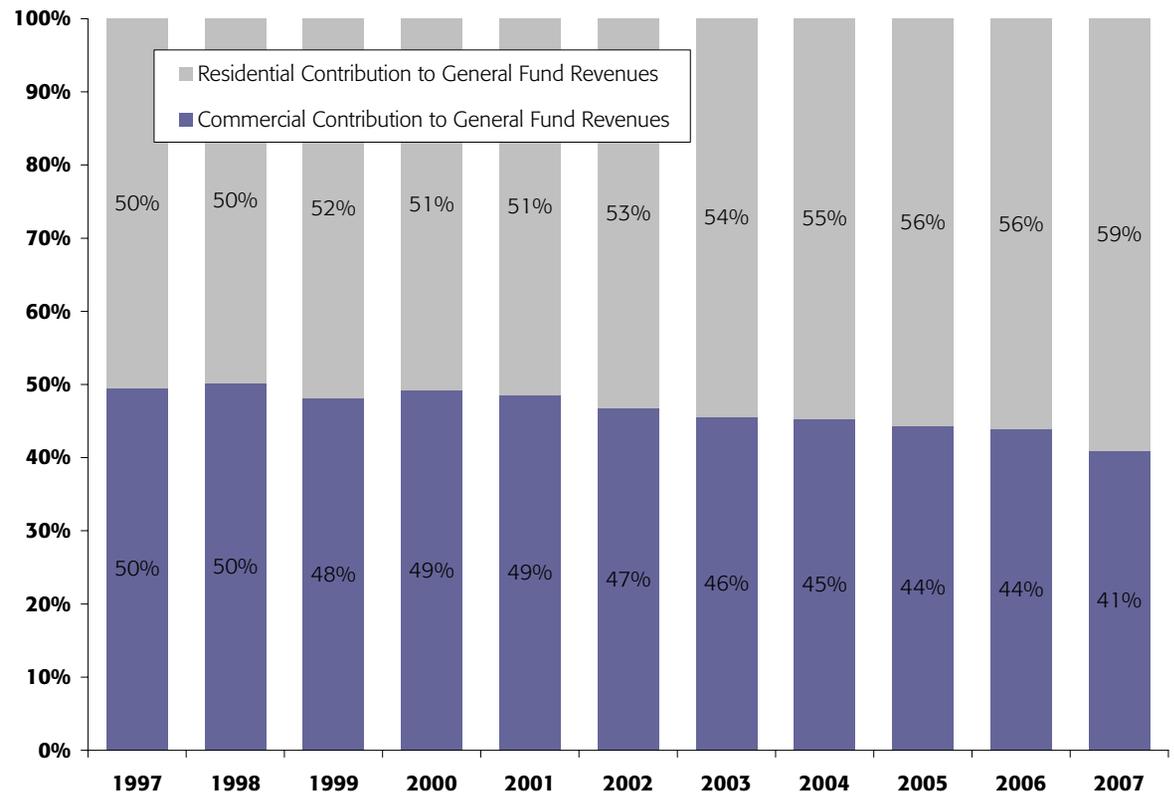
- Property tax
- Utility tax
- Sales tax; and
- Business license fees (Business license fees are not technically a tax, but for ease of discussion, we will refer to it as a tax in this discussion).

Overall, we found that the commercial contribution to these tax sources decreased from 50% in 1997 to 41% in 2007. The decline in commercial tax contributions has been relatively steady, interrupted in 2000 and 2001 (two years of strong employment growth in Kirkland).

The drivers of this shift in contribution included (1) differentials in the growth of commercial versus residential assessed values in Kirkland; (2) recent strong increases in utility purchases by households; and (3) only limited growth in overall commercial activity in Kirkland at a time when population in the City grew at a more robust pace. (Households represent a greater share

of the City's constituents, therefore, households as a group pay a greater share of total City taxes.)

Exhibit 5: Residential and Commercial Contributions to Major General Fund Tax Revenues (Sales Tax, Property Tax, Utility Tax, and Business License Fees)



Source: City of Kirkland; Washington State Department of Revenue; King County Assessor; Berk & Associates, 2008

Summary of Findings - Tax Contribution

The figures in Exhibit 5 reflect Berk & Associates' estimates of:

- Commercial versus residential property tax payments;
- Commercial versus residential utility tax payments;
- Business license fee and surcharge payments; and
- An allocation of sales tax revenues to businesses and residents that is consistent with the sales-capture analysis presented in the preceding section.

For retail sectors that capture person-expenditures that exceed the population of the City (e.g. auto dealers), the portion of the contribution that is the imported sales tax revenues are credited to the commercial sector. For those sectors where person-expenditures-captured was less than City population, sales tax revenues were credited to residents. Sales tax revenues from non-retail sectors like *Manufacturing; Wholesale; Real Estate, Rental, and Leasing; and Services* were credited to businesses, with the exception of a \$15 per resident credit for home-based purchases of goods and services like telephone services and delivery of heating oil, etc. Finally, non-store retail purchases were credited to households.

Sales taxes on construction were excluded from the analysis (largely because it is very difficult to determine how those taxes should be allocated). Given that population growth in Kirkland has outpaced employment growth, and given the surge in construction activity in recent years, one would expect that including construction would exacerbate the decline in commercial contributions (since homeowners are likely the payers of the taxes on

residential construction activity). However, even if one were to hypothetically assign all construction sales taxes to the commercial side, the extent of the contribution shift is still only diminished a bit (instead of declining by 9 percentage points from 1997 to 2007, commercial contribution would diminish by 7 points).

Shortcomings of a Broad Analysis of Contribution

As noted above, one of the reasons why contributions of City revenues have been shifting to residents in recent years is because, over that same period, growth in Kirkland's residential base has been more rapid than growth in its commercial base (measured by number of employees).

In theory, it is possible that a given business owner could have seen her contribution increase from 1997 to 2007, while at the same time, the overall contribution from Kirkland businesses decreased (as a share of the whole). It is for precisely this reason that this study assesses both the question of *tax contribution and tax burden*.

The following two sections address questions of tax burden.

- How have taxes changed for specific households and businesses over recent years? and
- How do tax burdens in Kirkland compare with those of peer cities?

Summary of Findings - Tax Burden Shifts

TAX BURDEN - BACKGROUND AND APPROACH

Berk & Associates' analysis of tax burden shifts builds on the framework developed for Kirkland's 2001 *Tax Burden Study*. This 2008 analysis looks at taxes that were paid by representative households and businesses in 1997 (taxes that were born directly by the household or business owner in question), and it looks at how those burdens have changed over the last 11 years.

Following the 2001 Study structure, Berk & Associates relied on a series of hypothetical taxpayers—taxpayers that were designed to be representative of a cross-section of the City's residential and commercial constituents.

These taxpayer types were designed to remain consistent with the taxpayer units used in Kirkland's 2001 study, with the addition of three new representative taxpayers: (1) the home-based business; (2) the large office user (an office user with 150 employees); and (3) the small office user (with 10 employees). The latter two users were added to bracket the engineering firm (44 employees) that was included in the 2001 study.

When looking at tax burdens for representative taxpayers, all reported taxes in this analysis are estimates based on particular characteristics of the various taxpayer units. Property taxes, for instance, are based on the applicable levy rate multiplied by the assumed assessed value of the house or condo, or in the case of the apartment or businesses, based on a pro-rata share of assumed total assessed value for the tax parcel.

Taxpayers who rent their house or business space do not pay any direct property taxes. Regardless of who owns the property, however, property taxes are levied. In the long run, the costs of most, if not all, property taxes are passed on to renters in the form of higher rents.

Households

- Single Family
- Condominium
- Apartment

Businesses

- Home-Based Business
- Grocery Store
- Automobile Dealership
- Furniture Store
- Electronics Store (Small)
- Restaurant
- Big Box Retail
- Large Office (150 Employees)
- Medium Office - Engineering Firm (44 Employees)
- Small Office (10 Employees)

For more details about the characteristics of the representative taxpayers, readers should see the Detailed Presentation of Analytic Findings that follows this Summary of Findings. Profiles of the taxpayer units and estimated changes in tax burdens begin on page 27.

Summary of Findings - Tax Burden Shifts

In addition to looking at City of Kirkland tax burdens, Berk & Associates estimated total tax burdens for each representative taxpayer, including City taxes, school taxes, regional taxes, and state taxes (see Detailed Presentation of Analytic Findings). Overall, all representative taxpayers saw increased taxes over the period. Depending on the taxpayer, tax increases may have been driven in greatest part by increases in state, regional, or City taxes.

For the representative households, the greatest portion of tax increases came from increases in regional taxes—driven by increases property taxes and increased sales taxes.

For businesses, the biggest source of overall tax increases tended to vary by the size of business and the rate of revenue growth. For smaller businesses, increases in City tax burdens tended to dominate, while tax increases for larger businesses were driven by state taxes.

Tax Burden Comparisons are Calculated in Inflation-Adjusted Terms

In the preceding discussion of tax contributions we presented information about tax revenues in nominal dollars (the actual number of dollars collected in a given year) and in inflation-adjusted dollars (presenting the value of the revenue collected each year translated into 2008 dollars). For discussions of tax burden shifts, all tax burdens are presented in inflation-adjusted, 2008 dollars.

Summary of Findings - Tax Burden Shifts

HOW HAVE TAX BURDENS SHIFTED IN KIRKLAND IN RECENT YEARS?

Overall, City tax burdens have increased for all representative taxpayers in real (inflation-adjusted) terms over the past 12 years. These increased burdens are driven primarily by (1) increased utility tax rates, (2) increases in Kirkland's Business License Fee and creation of a Business License Surcharge, and (3) appreciation in property values that have not been accompanied by parallel reductions in the Kirkland's city levy rate. This last effect is a result of the City using \$1.8 million of its banked levy capacity.

In inflation-adjusted terms, the greatest percentage increases in City tax burdens were felt by:

- Small businesses—driven by higher business fees and higher utility taxes;
- The representative single family households—driven by higher utility taxes, and large increases in assessed values; and
- The representative apartment dweller—driven by increased utility tax rates and recent, large increases in assessed values.

Among all taxpayers, large businesses have seen the smallest percentage increases in taxes by far. Because Kirkland's Business License Fee is a fixed amount (\$100 for all businesses) and because the Business License Surcharge is capped at \$2,500, on a per-employee basis, business license costs are smaller for large businesses.

Under the current structure, a business with seven employees pays a total of \$850 in business license fees (more than \$120 per employee). A business with 130 employees, on the other hand, pays \$2600 (\$20 per employee).

In regard to the residential taxpayers (the single family, condominium, and apartment households) the single family households saw the greatest increase in their tax burden. This increase was driven by (1) large increases in the value of their home; and (2) significant increases in their assumed income, which translated to significant increases in taxable purchases.

On the other hand, the representative condominium household saw relatively modest increases in tax burdens. Condominiums in Kirkland did not see the same level of property appreciation over the period, so the condominium household saw most of their tax increases as a result of increased utility taxes and increased retail sales tax (which, again, was a function of increased household income).

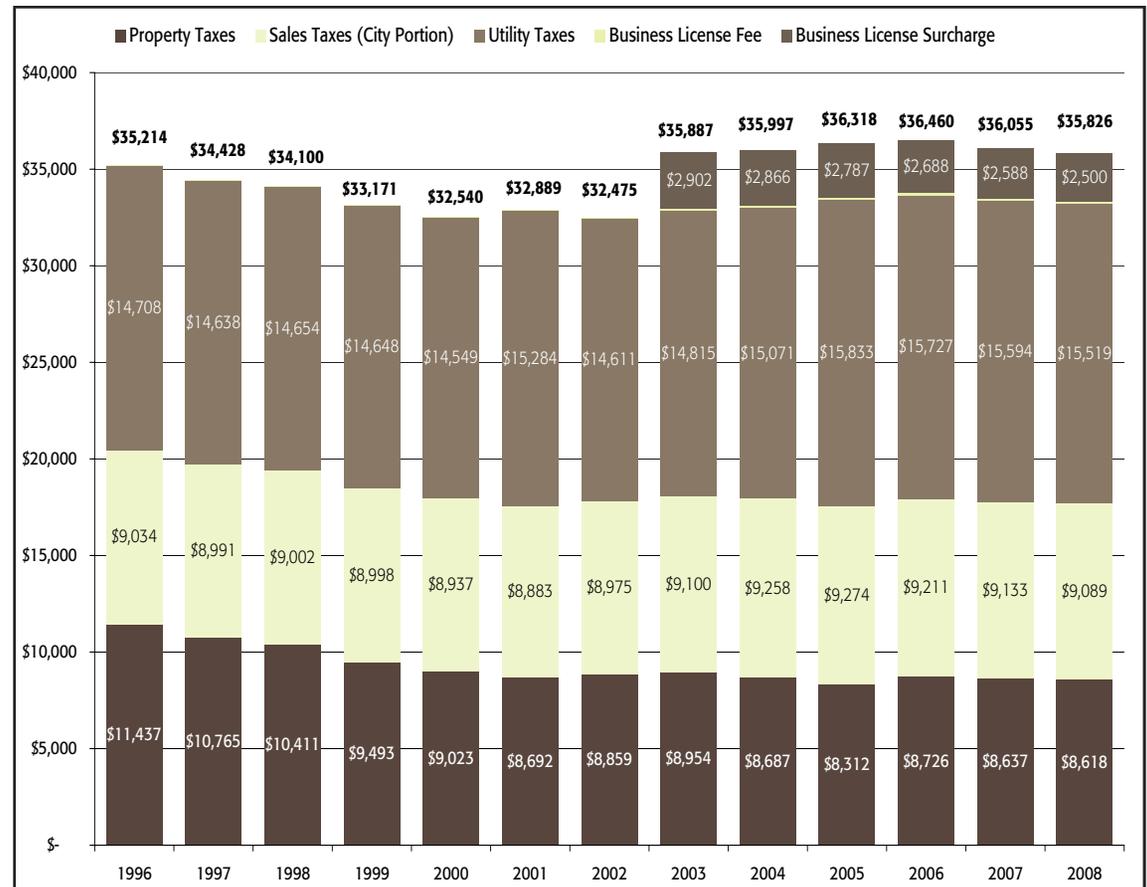
Summary of Findings - Tax Burden Shifts

For the reasons discussed above, our hypothetical large office user (with 150 employees) saw only a very small tax increase from 1997 to 2008 (less than 2% in real, inflation-adjusted terms). Our hypothetical single family household, by contrast, saw real increases of more than 30% over the same period, as did some of the small businesses that were most heavily impacted by the business license fee structure.

What this means, overall, is that from 1997 to 2007, relative tax burdens have shifted away from mid-sized and large businesses (particularly large office users) while shifting onto households and small businesses.

Exhibit 7, on the following page, provides some insight into one of the principal drivers of this shift: differentials in the growth of residential and commercial assessed values.

Exhibit 6: City Taxes Paid by a Representative Kirkland Business - Large Office User (\$2008)



Source: City of Kirkland; King County Assessor; Berk & Associates, 2008



Summary of Findings - Tax Burden Shifts

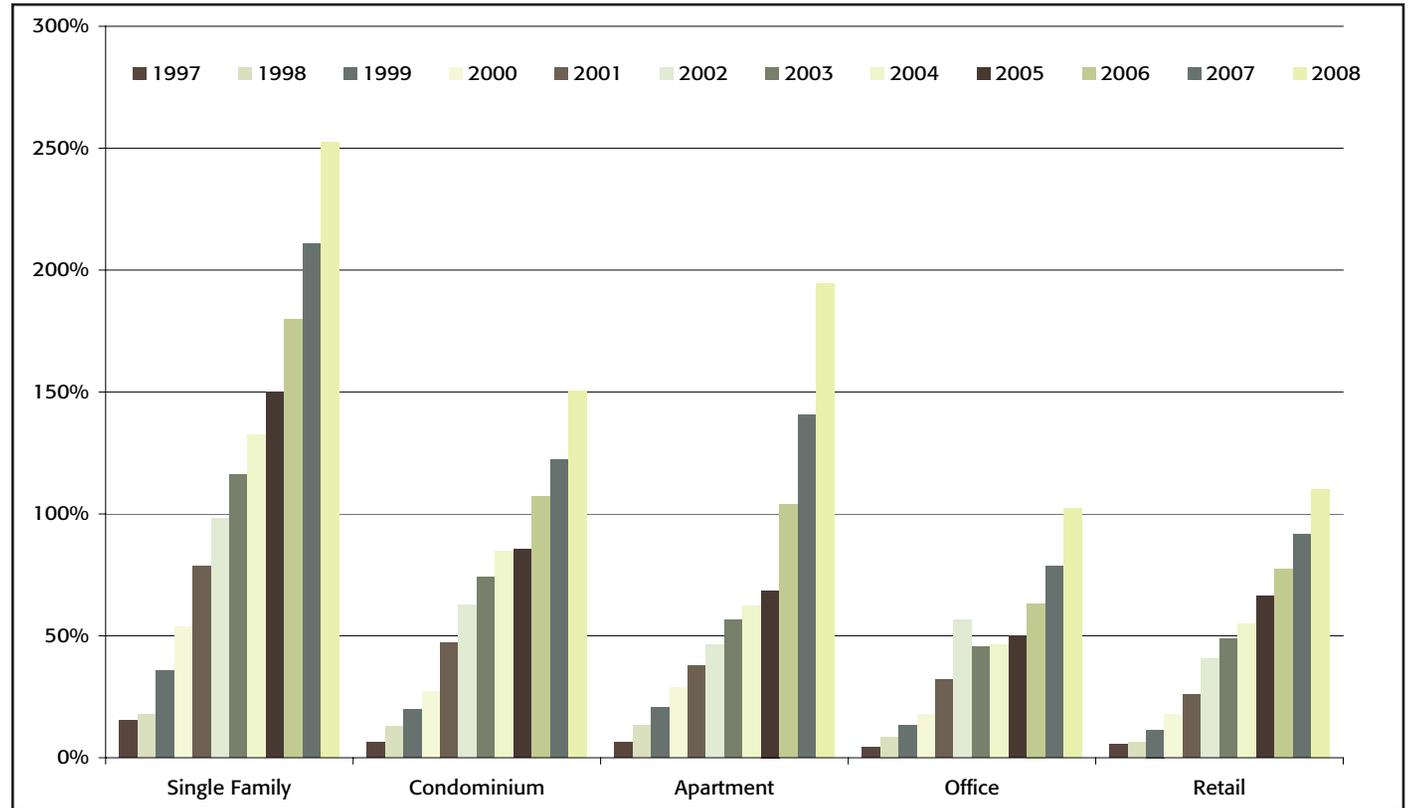
Berk & Associates' analysis of average property value gains (excluding new construction) found that single family houses experienced the greatest average gains in value, increasing by 250% from 1997 to 2008 (Exhibit 7). Assessed values of many commercial uses, by contrast, increased by roughly 100%.

This means that, each year, a greater proportion of the burden for the City property tax levy is shifted onto households, while burdens on businesses are decreased.

As an example (as illustrated in Exhibit 6 on the preceding page), for the hypothetical large office user, City property taxes paid by the business *decreased* from roughly \$11,400 in 1997 to a bit more than \$8,600 in 2008 (again, in inflation-adjusted terms).

For smaller businesses (businesses that were most heavily impacted by the City's business license fee structure) real decreases in City property taxes were made up by increases in costs for business license fees. Costs from business license fees

Exhibit 7: Cumulative Percentage Increases in Assessed Values by Category



Source: King County Assessor; Berk & Associates, 2008

put tax increases on these businesses more-or-less on par with tax increases on households. For large businesses, however, because business license fee impacts were small, virtually no net increase in tax burdens occurred.

Summary of Findings - Peer Comparisons

HOW DO KIRKLAND'S TAX BURDENS COMPARE WITH OTHER CITIES?

In addition to looking at the relative shifts in tax burdens among payers, there is also value in looking at how Kirkland's tax burdens compare with peer jurisdictions.

When considering the issue of relative tax burdens between residents and businesses, no set formula exists for determining the balance that is appropriate or fair. Ultimately, the answer to the question: "What is appropriate?" is driven by questions of competitiveness and by the political process:

- Do our tax burdens allow businesses in our city to compete with businesses located in nearby cities?
- Do our constituents generally feel that the distribution of tax burdens is fair?

The analyses included in this section focus on comparisons with peer jurisdictions. The analysis is designed to address the first of the above questions, and to inform the debate around the second.

Every city engages in an ongoing process of balancing tax burdens on residents and businesses. Given this ongoing process, one can learn a great deal about what falls within the realm of an equitable distribution by looking

at how Kirkland stacks up.

Within this context, the following pages summarize tax burdens for each of our representative taxpayers in Kirkland and in six other peer jurisdictions.

This analysis answers the question:

In 2008, how would the tax burden of our representative taxpayers be different if they were to pick up their home or businesses and put it down in another city?

What would the picture look like, for example, if our representative single family household took their house, their cars, and everything else, and put those things down in another city? Would their tax burden be higher, lower, or about the same?

Summary of Findings - Peer Comparisons

So How Does Kirkland Compare?

Kirkland's 2001 *Tax Burden Study* found that Kirkland's tax burdens for both households and businesses were among the lowest when compared with peer jurisdictions.

In 2008, Kirkland's burdens now tend to fall in the middle of the pack. For both households and businesses, Kirkland's tax burden is now higher than some and lower than others.

Exhibit 8 provides a comparison of city taxes (or local county taxes in the case of unincorporated King County) for our representative single family household. What it shows is that the representative household pays significantly less in Kirkland than it would pay in Kent or Renton, more than it would pay in Bellevue, Redmond, or unincorporated King County, and about the same as they would pay in Bothell.

To be clear, this comparison looks at what the situation would be if one could pick up the hypothetical household and put it down, with the same assessed value, the same income, and all of their same stuff, in another city.

Exhibit 8: Comparison of 2008 City Taxes Paid by a Representative Single Family Home by Jurisdiction



Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



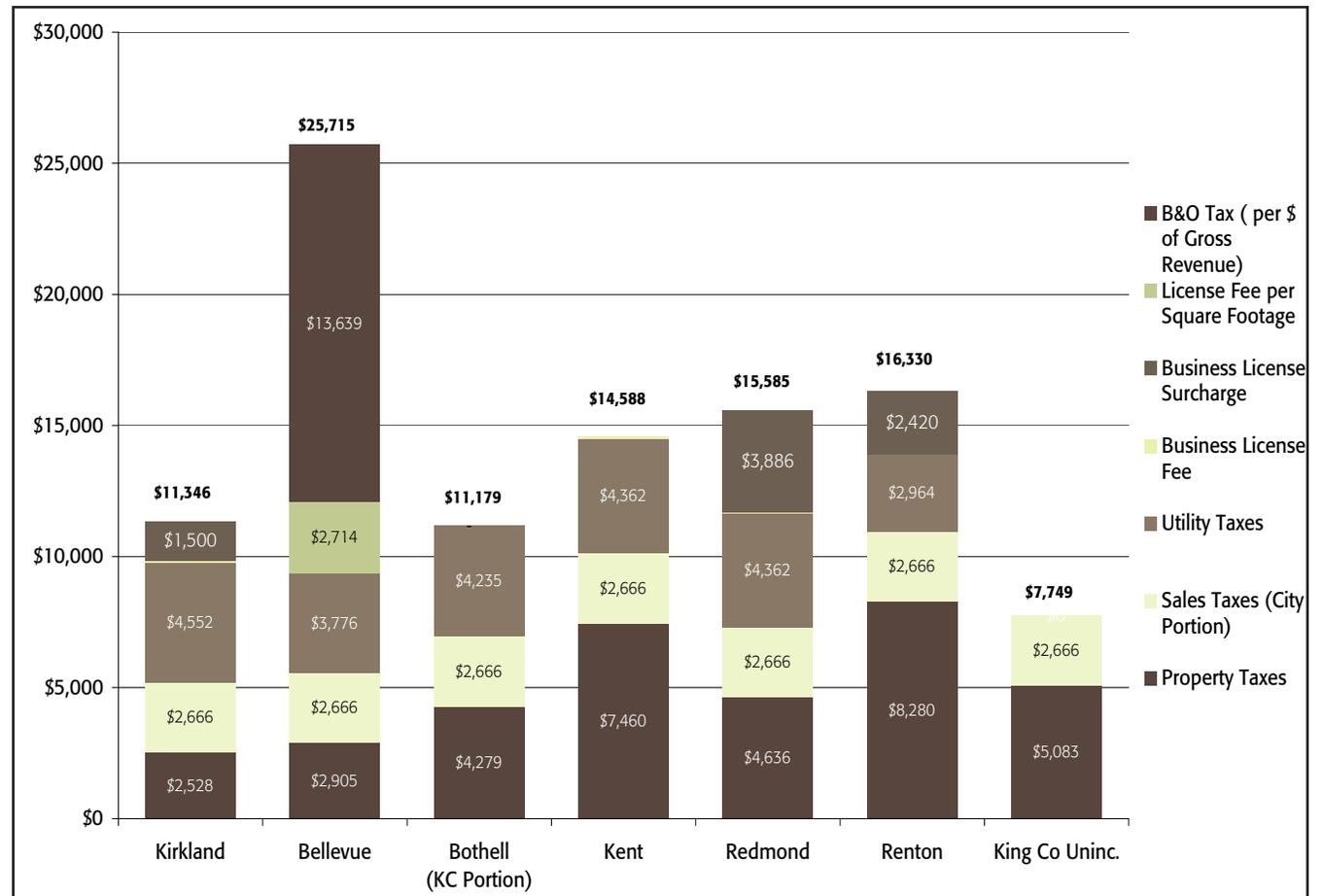
Summary of Findings - Peer Comparisons

Exhibit 9 shows a parallel comparison of tax burdens that would be faced by the hypothetical, mid-size engineering firm we use as one of our representative taxpayers.

Again, Kirkland's tax burden tends to fall in the middle of the range, higher than that of a couple of jurisdictions, but lower than others.

In general, due to the structure of Kirkland's business license fee and surcharge, Kirkland's tax burden for smaller businesses tends to fall in the mid-to-high end of the spectrum, while the City's tax burdens on mid- to large-size businesses tend to fall in the lower part of the range.

Exhibit 9: Comparison of 2008 City Taxes Paid by a Mid-size Engineering Firm by Jurisdiction



Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Summary of Findings - Peer Comparisons

How Does Kirkland's Balance of Residential Versus Commercial Burdens Compare with The Balance Struck by Other Cities?

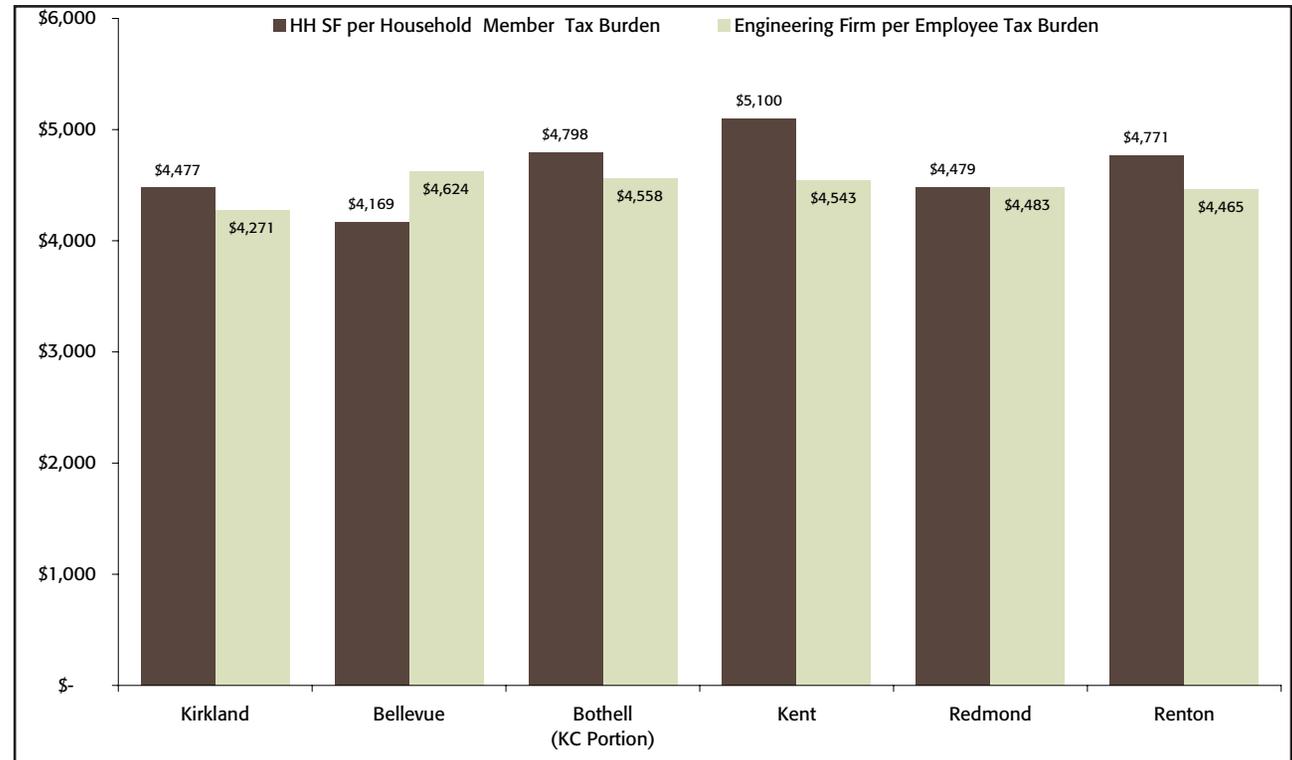
Through its political processes, every city looks at its constituent households and its constituent businesses and attempts to strike *some* balance of tax burdens through selected fiscal policies.

If one looks at the total tax burden paid by the representative single family household and the representative engineering firm (translated into per-resident and per-employee terms), one sees that the tax burden in Kirkland is skewed, with the larger burden falling on the household. Only in the cities of Kent and Renton is the balance more skewed towards the household.

In reality, however, the representative single family household used for this analysis is not very representative of households in Kent and Renton.

The representative household used for this analysis is relatively well off—by regional standards—with an income of roughly \$165,000 in 2008, and a house value of a bit more

Exhibit 10: Total Tax Burden per Resident/Employee - Single Family vs Mid-size Engineering Firm (2008)



Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Summary of Findings - Peer Comparisons

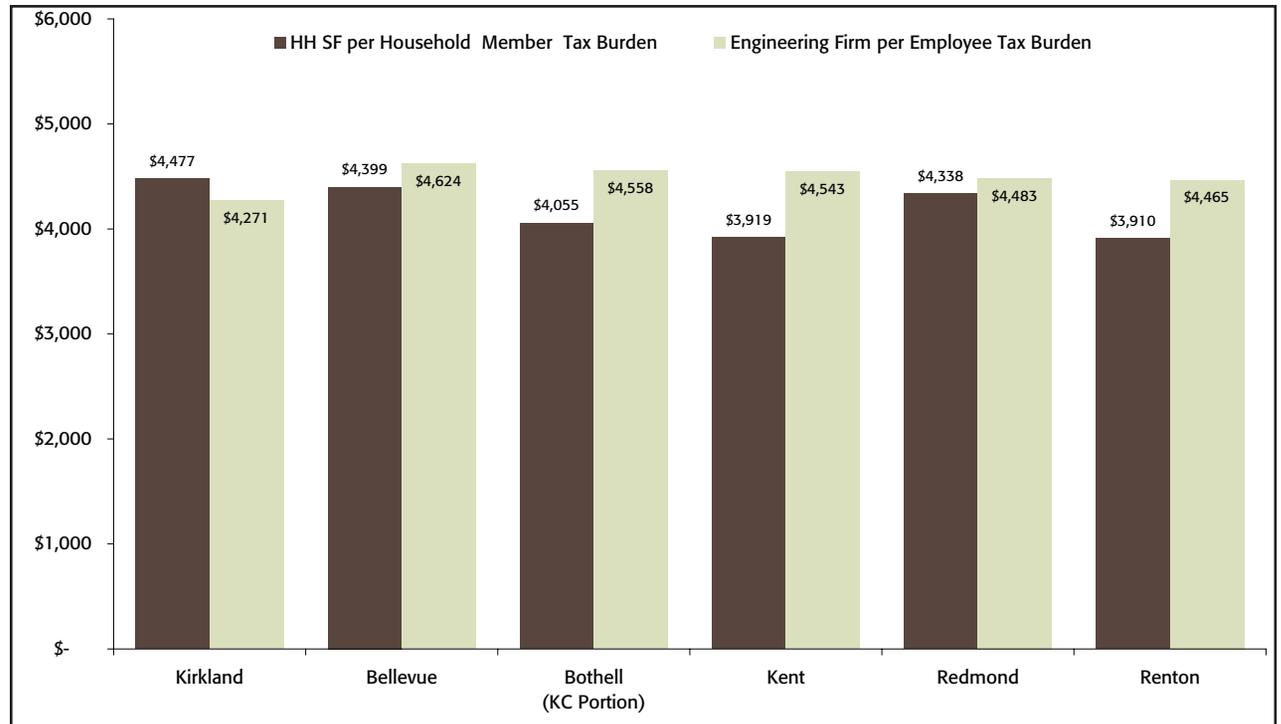
than \$630,000. While this household may be representative of an upper-middle-class household in Kirkland, this same household would probably be considered relatively affluent if it was located in Renton or Kent. This is somewhat higher than the overall average value of a home in Kirkland which includes a large number of condominiums.

To get a true sense of the balance that cities like Renton and Kent have struck between taxes paid by an engineering firm and a “typical” upper-middle-class family in their community, one might adjust the income and the home value to reflect incomes in these communities.

Exhibit 11 presents a comparison of household and engineering firm taxes, parallel to the comparison presented in Exhibit 10, but in this case, the household taxes are adjusted to reflect the typical incomes found in each city (based on average incomes reported by the Census).

With the household’s profile adjusted to reflect typical income levels in each city, the balance between household tax burdens and the engineering firm tax burdens is striking. In Kirkland, the balance is skewed towards households, while in all

Exhibit 11: Total Tax Burden per Resident/Employee - Single Family vs Mid-size Engineering Firm (2008) with Adjustments for Average Income Differences Among Cities



Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; U.S. Census; Berk & Associates, 2008



Summary of Findings - Peer Comparisons

five of the comparison cities, the burden is skewed in the other direction.

This skewing of tax burdens towards households also holds when one compares income-adjusted-households and smaller businesses—businesses that are more heavily impacted by Kirkland’s business license fee and surcharge.

The pattern suggests that, through their political processes, these other cities have struck a balance of burdens that differs from the one struck by Kirkland, placing a greater relative burden on the commercial component of the tax base versus the residential tax base.

Summary of Findings - Fiscal Risks

What fiscal risks might the City face in the future?

There are two key areas of risk for the City to keep in mind as it considers its long-term fiscal challenges. The first is related to the City's reliance on increasing taxes since 2001 to balance revenues and expenses. The second is the concentration of the natural tax revenue growth in two key sectors: construction and auto sales.

Of the \$9.3M (unadjusted for inflation) added to the City's revenues since 2001, approximately \$3.4M are the result of policy changes (37%). The other 63% was the result of natural growth in the City's tax base. Of the \$5.9M in natural growth, \$2.5M came from increased sales tax on construction activity and auto sales alone. Leaving \$3.4M, or 37% of all new revenue having been generated by all other sources.

- The City's tax base continues to rely heavily on construction and auto sales, two sectors which can be volatile and susceptible to downturns during recessionary periods.
- The City has made policy changes that resulted in net increases to tax rates and fees since 2001 have generated the following revenue gains:
 - Banked capacity -- \$1.8M
 - Business license fee increase and surcharge -- \$1.3M
 - Utility tax rate changes -- \$0.6M

The combination of changes to City tax policy and higher than expected

growth in construction and auto sales has provided the City with annual revenue growth of 5.6% per year since 2001. This rate of growth is in-line with historic rates of expenditure growth. However, if you remove the changes in tax policy, the annual growth rate in City revenues since 2001 drops to 3.7%.

The single largest gain that derived from policy actions resulted from making use of the \$1.8M in banked property tax capacity. This allowed property taxes to grow by an average 5.7% per year since 2001. Without the banked capacity, the growth rate would have been 1.7% per year (the amount in excess of 1% is due to new construction).

The current expenditure outlook assumes that costs of maintaining existing services will grow at approximately 6% per year. It will be a challenge for City to support this level of expenditure given the trends in core growth in current City tax bases. The major reasons for this appear to be:

- Retail tax base (other than autos) has not been expanding
- Having virtually exhausted the City's banked capacity, property taxes will be limited by the 1% property tax limit.
- Business license surcharge, in its current form, is unlikely to grow significantly as it is tied to number of businesses, total fees are capped and fees are not indexed to inflation.

Detailed Presentation of Analytic Findings



TAX BURDEN SHIFTS

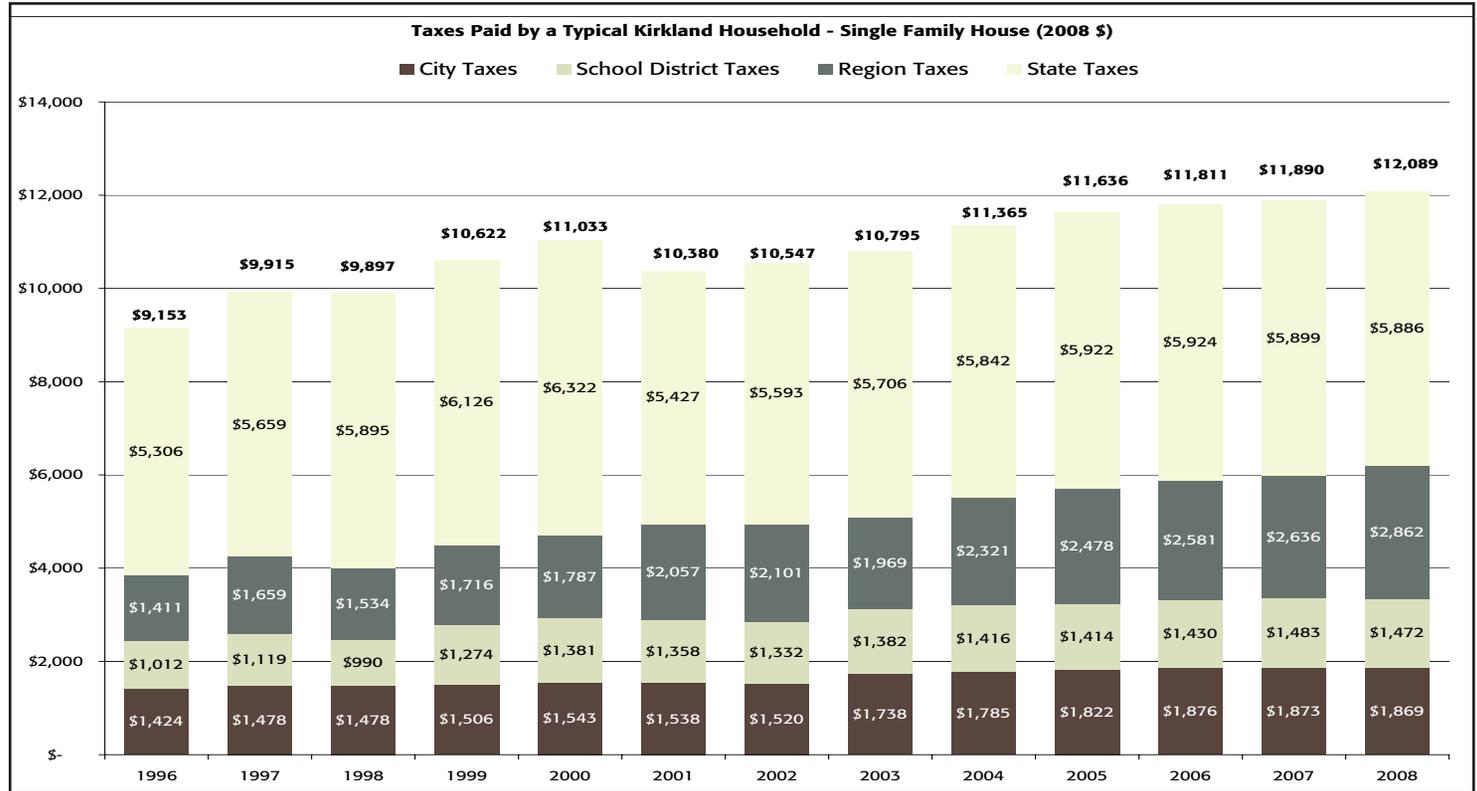
DETAILED PRESENTATION OF ANALYTIC FINDINGS

Single-Family Household

Characateristics of Representative Households (2008)	
Single-Family	
Taxable Assessed Value (per housing unit)	632,534
Square Footage Living	2,100
Square Footage Basement	800
Bedrooms	3.50
HH Size	2.70
HH Income	165,765
Vehicles Owned	2
New Value of First Vehicle	30,000
New Value of Second Vehicle	30,000
Age of Primary Vehicles (years)	3
Age of Secondary Vehicle (years)	6
Gallons of Gas Consumed (per year)	1,240

The representative single family household is based on the single family household used in Kirkland's 2001 *Tax Burden Study*. With an income in excess of \$160,000 and a home with a 2008 assessed value in excess of \$630,000, this household is not designed to reflect Kirkland's average household. (The study also includes a condominium household and an apartment household try to capture a range of residential taxpayers.) Rather, the representative single family household is intended to reflect the experience of an upper-middle class household in Kirkland (roughly twice the median household income in all of King County).

- The overall tax burden has increased at an annual rate of 2.3% in inflation-adjusted terms.
- While City taxes have grown at same rate as the total burden (2.3%), the burden from other jurisdictions has varied with:
 - State taxes having grown the least at less than 1% per year;
 - Schood district taxes growing at 3.2% per year; and
 - Regional taxes growting at 6.1% per year, primarily due to higher transit sales taxes.

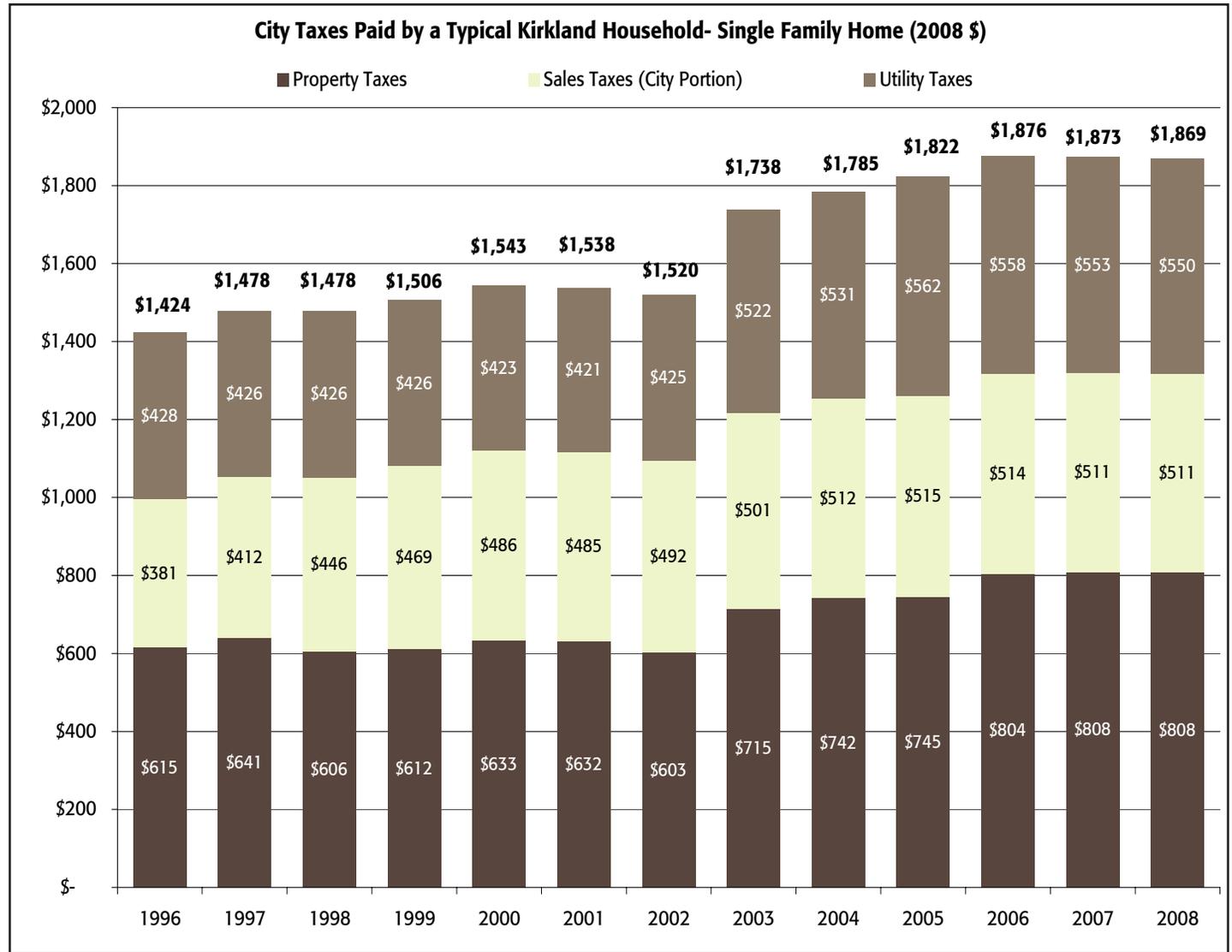


Source: City of Kirkland; King County Assessor; Berk & Associates, 2008



Single-Family Household

- City tax burden increases have been driven in greatest part by increases in utility tax rates and by large increases in assessed value that have not been accompanied by parallel decreases in the City levy rate (due to the City choosing to use its banked levy capacity).
- The increase in sales taxes reflect an increase in household expenditures on taxable items (a function of income growth assumed for this representative taxpayer).
 - The household income of this taxpayer has grown from approximately \$90,000 in 1996 to \$165,000 in 2008, which is consistent with gains experienced by upper-middle income households in King County over this period.



Source: City of Kirkland; King County Assessor; Berk & Associates, 2008

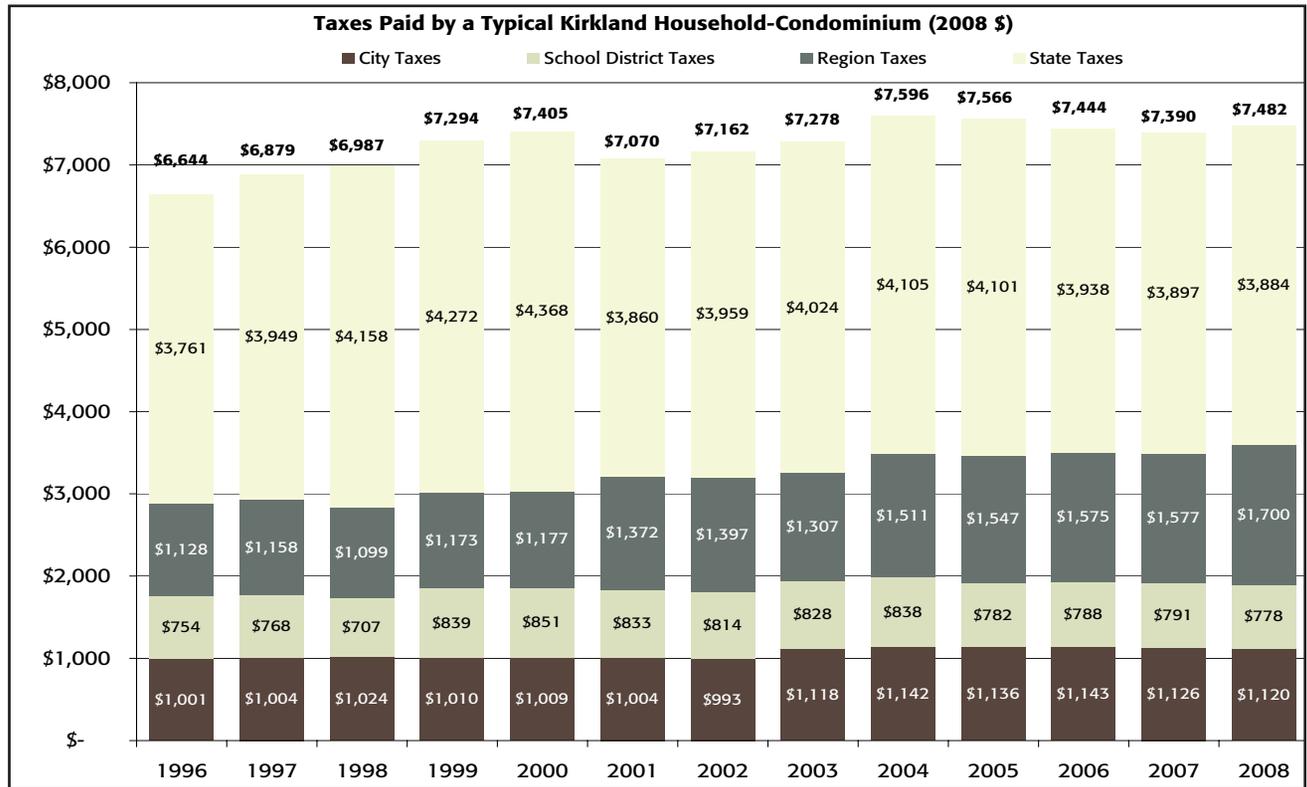


Condominium

Characteristics of Representative Households (2008)	
Condo Owner	
Taxable Assessed Value (per housing unit)	334,449
Square Footage Living	980
Square Footage Basement	-
Bedrooms	1
HH Size	2
HH Income	117,640
Vehicles Owned	1
New Value of First Vehicle	30,000
New Value of Second Vehicle	
Age of Primary Vehicles (years)	3
Age of Secondary Vehicle (years)	
Gallons of Gas Consumed (per year)	620

The hypothetical condominium household used for this analysis lives in a 980 square foot condominium currently valued at a bit less than \$335,000. Assumed household income is nearly 118,000 which would put the household about 40% higher than the median household income for all of King County. Because the condominium household is lower on the income ladder than the hypothetical single family household, the household is assumed to have experienced more modest income gains from 1997 to 2006—consistent with overall patterns within King County.

- The overall tax burden for the Condominium household has increased at a much slower rate relative to the single family household (0.3% in inflation-adjusted terms since 1996).
- The impacts among the other jurisdictions are also much smaller, with the largest impact coming from the regional taxes which grew at a real annual rate of 1.2%.
- There are two primary reasons for the smaller change in burdens for this taxpayer:
 - Property valuation increases for the condo property have been approximately half of the single family appreciation; and
 - Assumed incomes gains are lower, resulting in less growth in real expenditures.

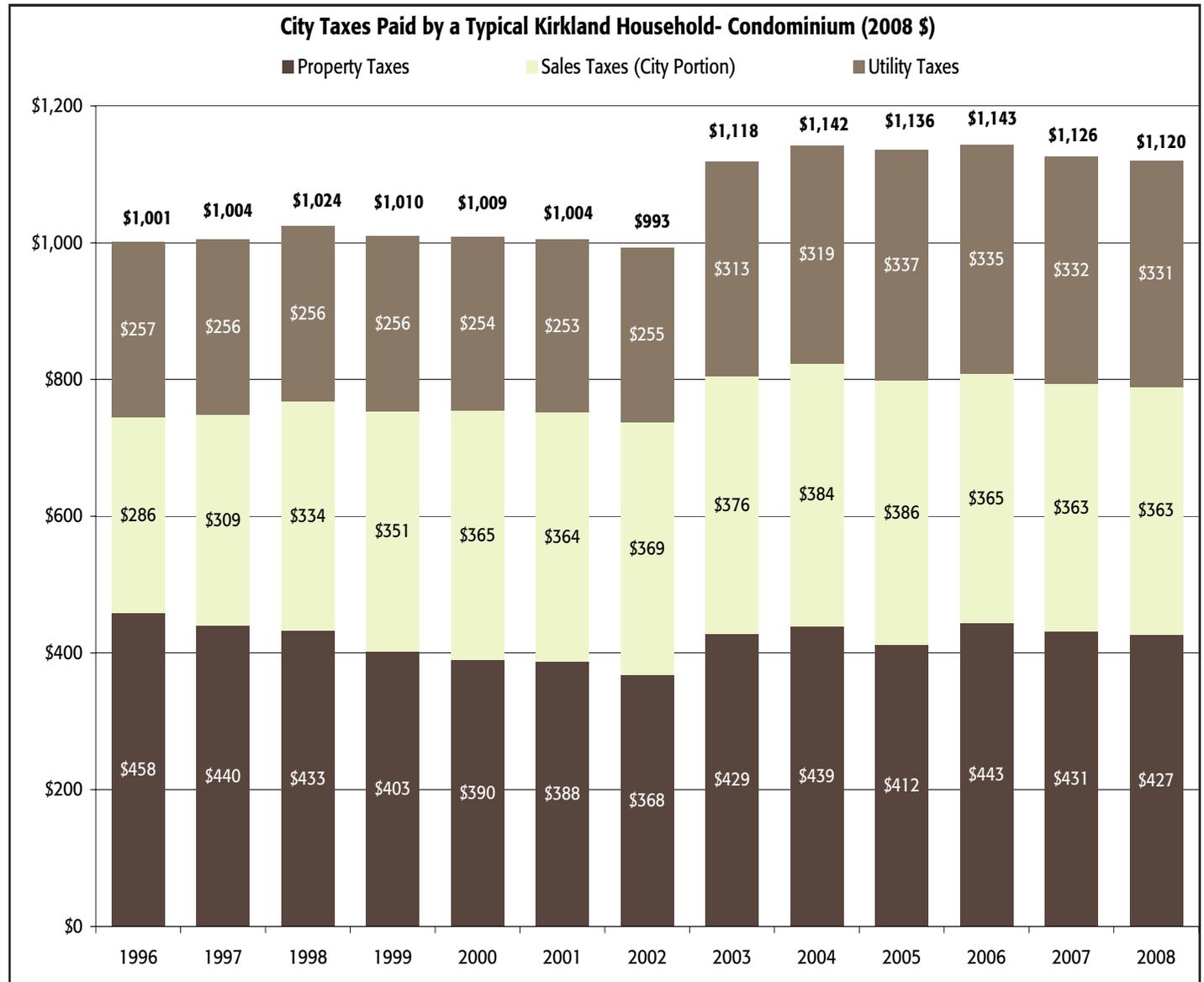


Source: City of Kirkland; King County Assessor; Berk & Associates, 2008



Condominium

- City tax burden increases for the condominium taxpayer have been driven in greatest part by increases in utility tax rates and increases sales taxes (driven by increases in income and expenditures).
- The increases in utility taxes and sales taxes have been partially mitigated by a net reduction in property taxes as the assessed value of condominiums has lagged the overall rate of property appreciation (driven primarily by increases in single family property values).



Source: City of Kirkland; King County Assessor; Berk & Associates, 2008

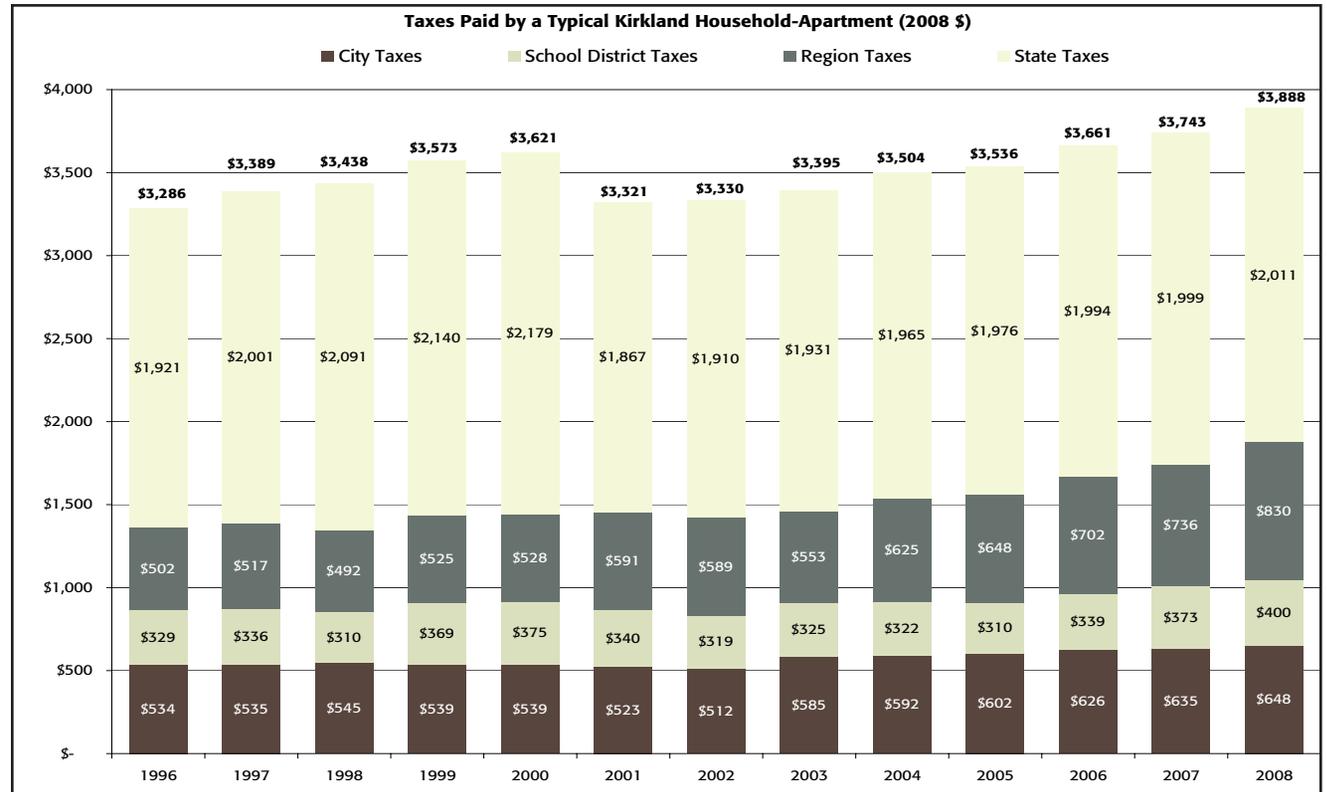


Apartment Rental

Characateristics of Representative Households (2008)	
Apartment Renter	
Taxable Assessed Value (per housing unit)	171,743
Square Footage Living	840
Square Footage Basement	-
Bedrooms	-
HH Size	1
HH Income	52,891
Vehicles Owned	1
New Value of First Vehicle	20,000
New Value of Second Vehicle	-
Age of Primary Vehicles (years)	5
Age of Secondary Vehicle (years)	-
Gallons of Gas Consumed (per year)	620

The hypothetical apartment household lives in an 840 square foot apartment, with an assessed value of nearly \$172,000. The household income of the apartment dwellers is assumed to be about \$53,000 in 2008 (roughly 60% of the King County median household income). Because income gains for lower-income families have tended to be modest in King County since 2000, household income gains for the apartment household were estimated to be modest (slightly less than 3% per year, which more or less keeps up with the underlying rate of inflation).

- The overall tax burden for the Apartment household has followed a similar pattern as the Condominium household, with overall inflation-adjusted increase in taxes of 1.4% per year. The biggest increase for the apartment household came from the change in regional taxes, which averaged 4.3% per year.

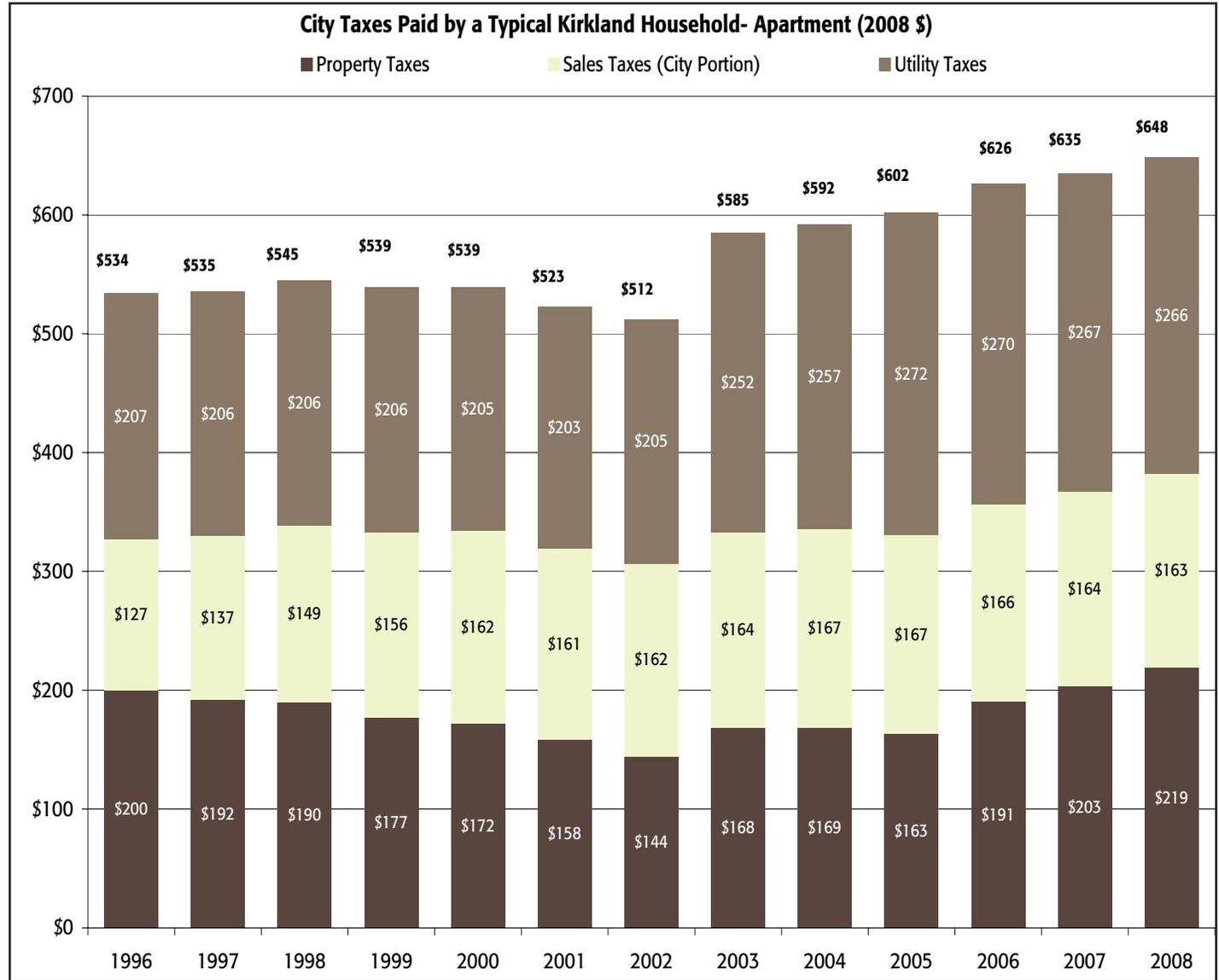


Source: City of Kirkland; King County Assessor; Berk & Associates, 2008



Apartment Rental

- City tax burden increases for the condominium taxpayer have been driven in by increases in utility tax rates, increases in sales taxes paid, and a small increase in property taxes.
- While renters do not directly pay the property tax, our assumption is that the cost is passed on by the owner in the form of higher rents.
- The property values for rental properties have grown somewhat more rapidly than condominiums, but slower than single family homes.
- The growth in values have followed an increase in rents starting around 2002. A key factor in this growth was the attractiveness of condominium development in this timeframe, which included some apartment conversions. These, in turn, resulted in a reduction in apartment supply and pressure on rents.



Source: City of Kirkland; King County Assessor; Berk & Associates, 2008



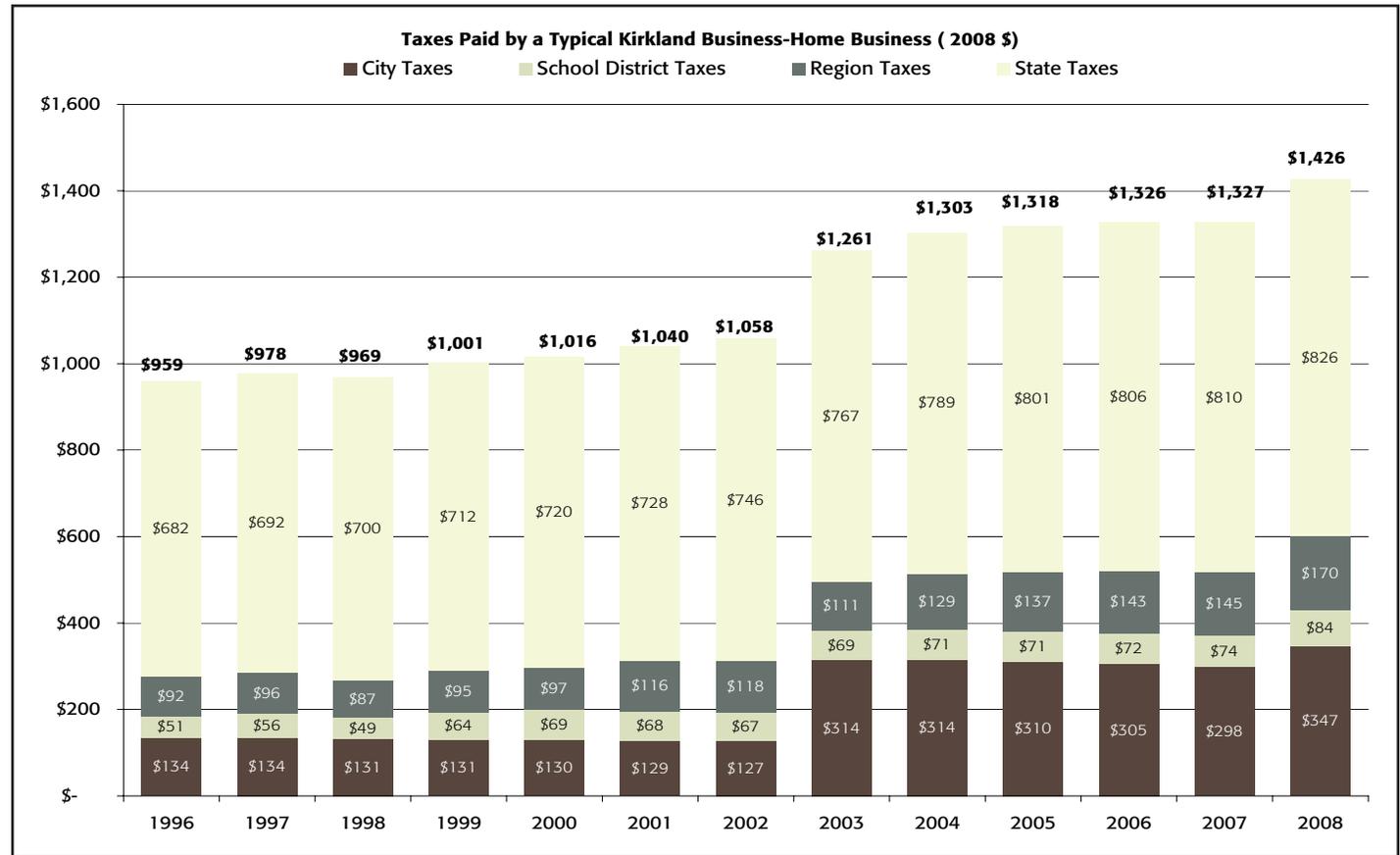
Home Business

Characteristics of Representative Business (2008)

Home-Based Business - Graphic Design	
NAICS Code	442110
Number of Employees	1
Gross Revenues - Per Employee	100,000
Gross Revenues - Total	100,000
Floor Area Ratio (SF floor space/SF land)	0.30
Floor Area per Employee (SF)	120
Floor Area (SF)	120
Land Area (SF)	na
Taxable Assessed Value	36,000

For the hypothetical home-based business, Berk & Associates assumed that modest portions of operating a household would be allocated to the business. In effect, we assumed that the business would consume 120 square feet of the house (and would therefore pay a small portion of the property taxes). We also assumed that the existence of the business would increase usage of electricity and telecom services, which generated modest utility taxes.

- The overall tax burden for this particular home-based business is estimated to have increased at an annual rate of 3.4% in inflation-adjusted terms.
- This result is particularly sensitive to the assumptions about the business:
 - Property taxes are a key component of the higher growth rate in taxes, as this business is assumed to be located in a single family home which saw significant appreciation

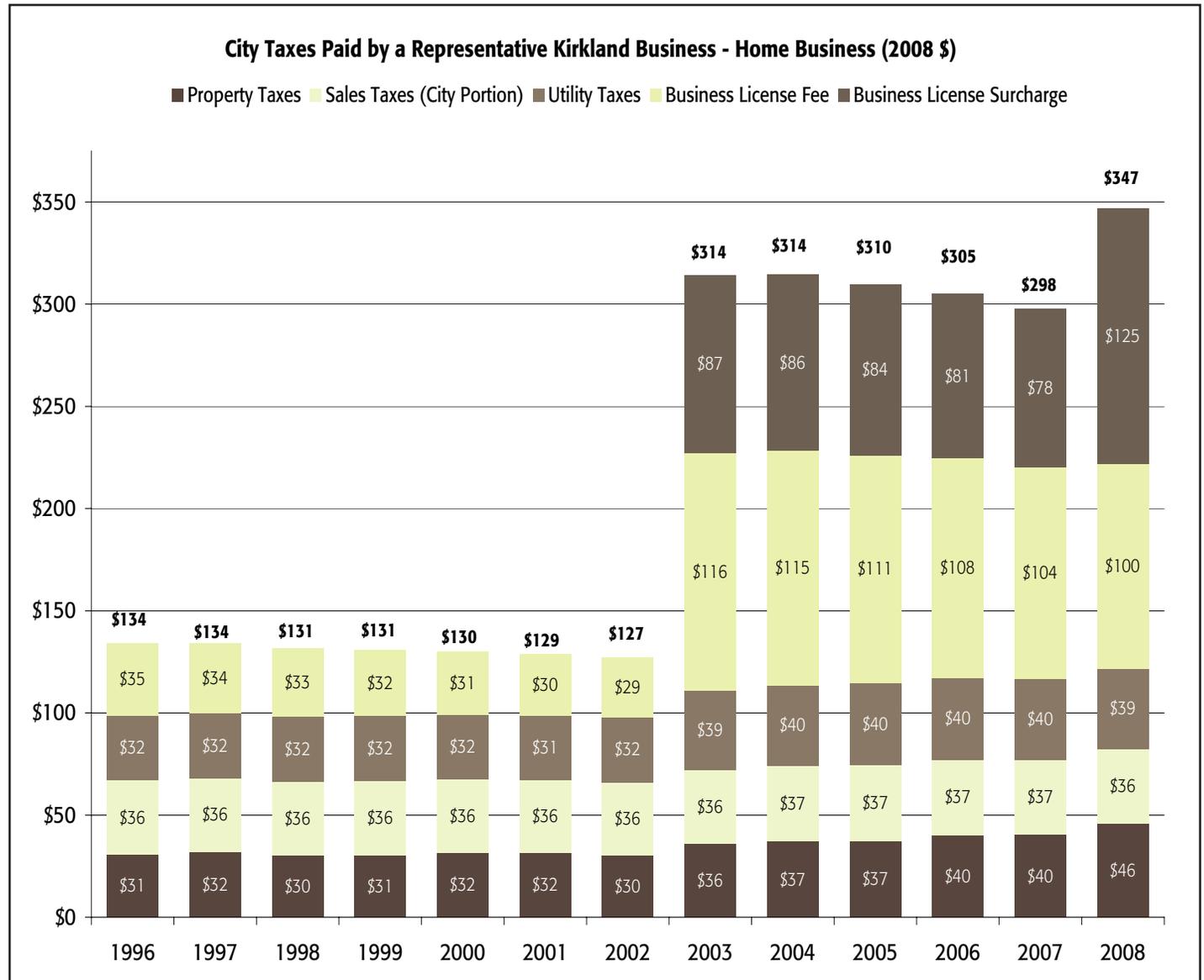


Source: City of Kirkland; King County Assessor; Berk & Associates, 2008



Home Business

- For the home business, and all businesses to follow, Kirkland's business license fee and surcharge are affected by the inflation adjustment. Because historical costs are reported in 2008 dollars, the \$100 spent on the fee in 2005, has an inflation-adjusted cost of \$111 when expressed in 2008 dollars.
- Among all businesses, a business with only one employee, but \$100,000 in gross revenues is most disadvantaged by Kirkland's current business license fee/surcharge structure. In 2008 (the year that the business achieved \$100,000 in gross revenues, the business license fee and the business license surcharge account for roughly two-thirds of city taxes.



Source: City of Kirkland; King County Assessor; Berk & Associates, 2008

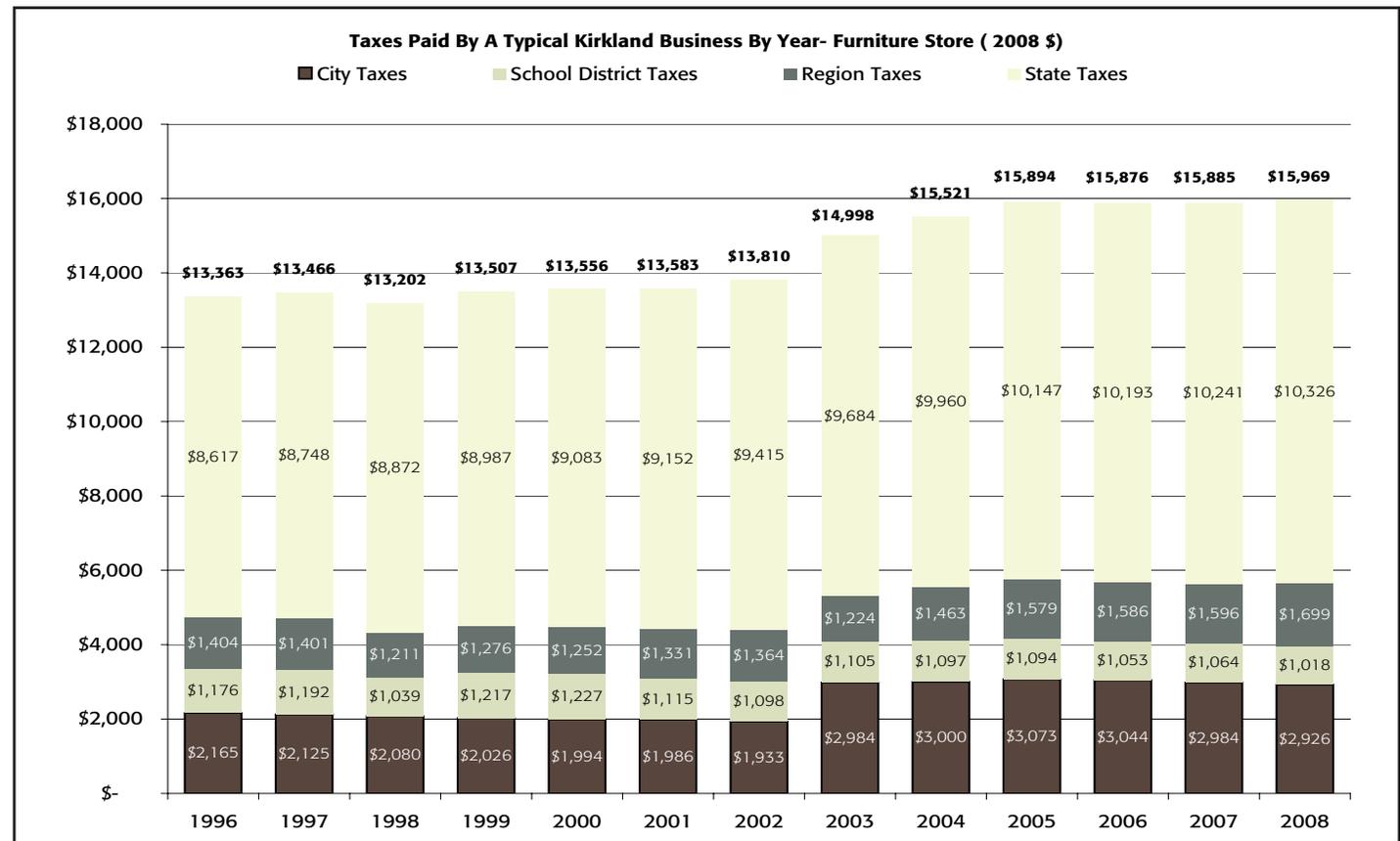


Grocery Store

Characteristics of Representative Business 2008	
Grocery	
NAICS Code	445110
Number of Employees	65
Gross Revenues - Per Employee	289,909
Gross Revenues - Total	18,844,109
Floor Area Ratio (SF floor space/SF land)	0.35
Floor Area per Employee (SF)	350
Floor Area (SF)	22,750
Land Area (SF)	65,000
Taxable Assessed Value	2,275,000

The hypothetical grocery store was structured to reflect a relatively small grocery store, with a bit less than 27,000 square feet. The store is assumed to have 65 employees, and generate gross revenues of nearly \$19 million—a high revenue figure for a store of that size. In 2008, the store is assumed to have an assessed value of a bit less than \$2.3 million, which translates to \$100 per square foot.

- Overall taxes for the hypothetical grocery store increased by roughly \$2,500 in inflation adjusted terms (an average of 1.4% per year).
- The largest source of tax increases came at the state level, with the second largest increase coming from additional city taxes.

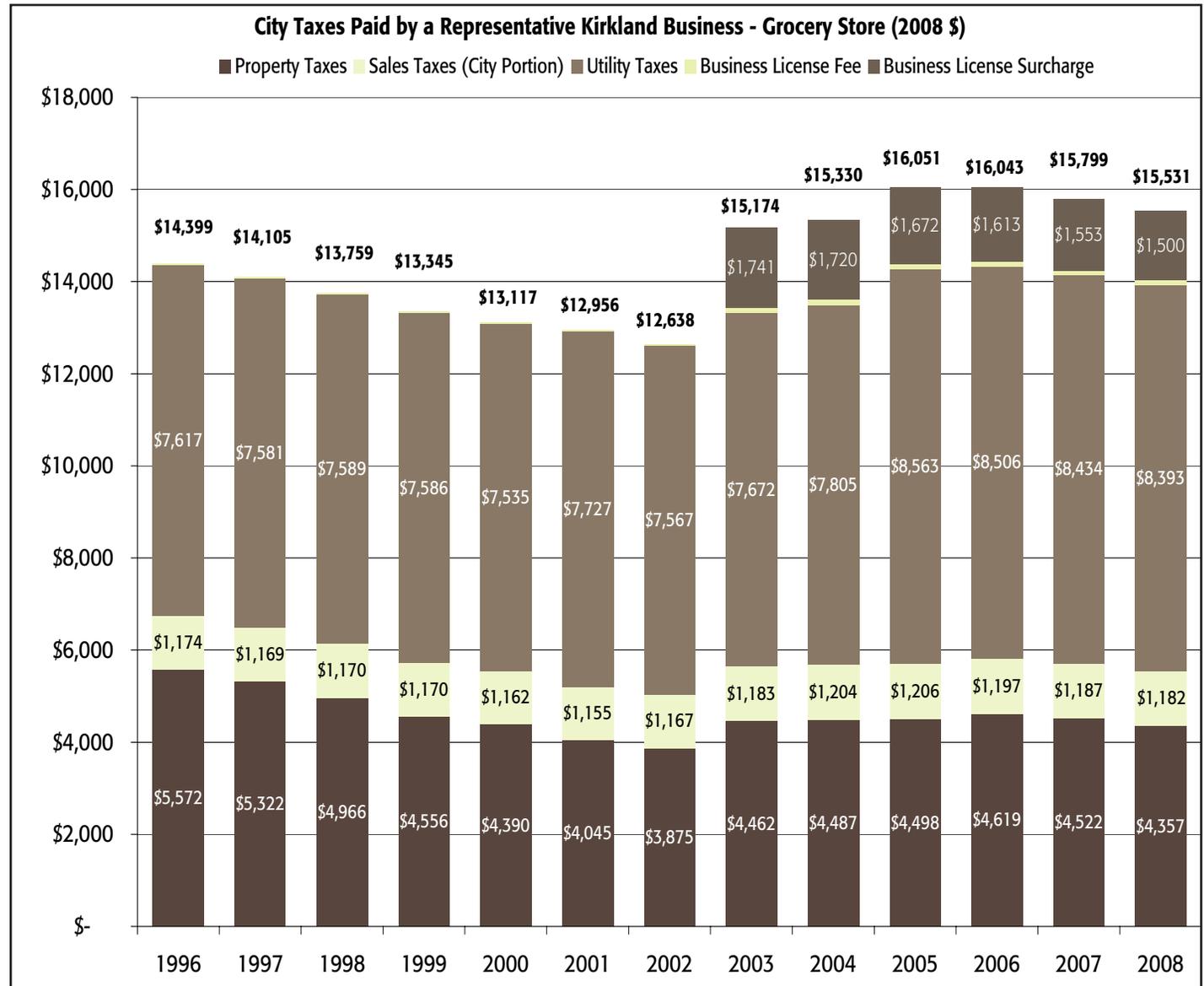


Source: City of Kirkland; King County Assessor; Berk & Associates, 2008



Grocery Store

- Through 2002, the city tax burden for the hypothetical grocery store declined steadily. With an increase in Kirkland's business license fee, addition of the license fee surcharge, and subsequent increases in utility taxes, however, the grocery tax burden increased and then began to wane in the most recent years.
- Overall, in inflation-adjusted terms, the representative grocery store saw city tax increases of a bit more than \$1,100, an annual growth rate of less than 1%.



Source: City of Kirkland; King County Assessor; Berk & Associates, 2008

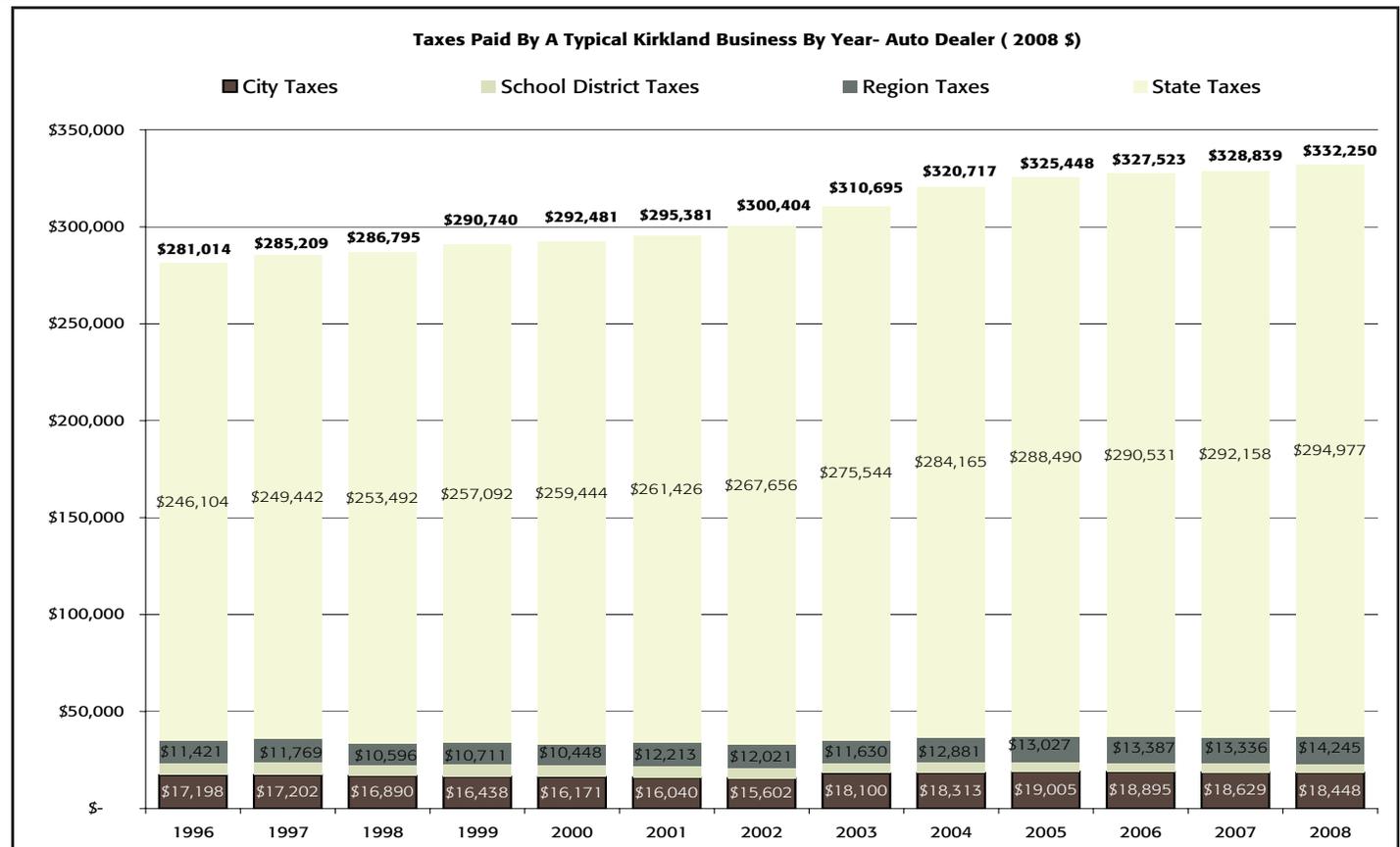


Auto Dealer

Characateristics of Representative Business (2008)	
Auto Dealers	
NAICS Code	441110
Number of Employees	75
Gross Revenues - Per Employee	724,773
Gross Revenues - Total	54,358,006
Floor Area Ratio (SF floor space/SF land)	0.20
Floor Area per Employee (SF)	350
Floor Area (SF)	26,250
Land Area (SF)	131,300
Taxable Assessed Value	1,968,750

The hypothetical auto dealer is assumed to have 75 employees and generate nearly \$725,000 per employee. This latter figure reflects the reality that auto dealerships are high value, low margin businesses. In terms of built space, the dealership is assumed to have a bit more than 26,000 square feet of facilities.

- For the hypothetical auto dealer, inflation-adjusted tax increases have been driven, far-and-away, by increase state taxes (driven by increases in B&O taxes, which in turn, are driven by increases in sales). Assumptions about rates of revenue growth for auto dealers and other representative businesses are based on Berk & Associates' analyses of revenue gains by commercial categories over the period.

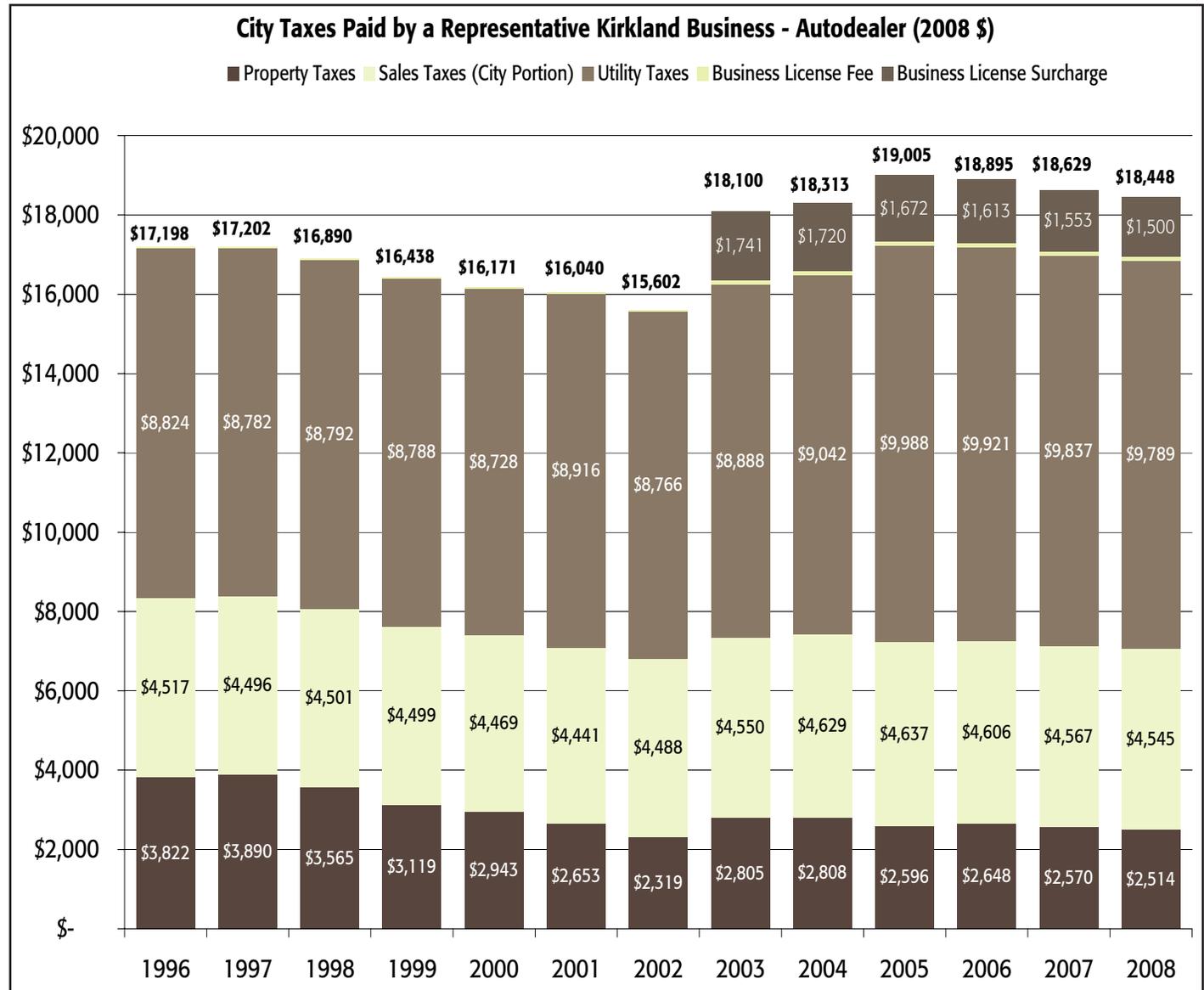


Source: City of Kirkland; King County Assessor; Berk & Associates, 2008



Auto Dealer

- From the city perspective, the auto dealer saw relatively modest increases in city taxes (especially compared with those shouldered by the representative single family household and small businesses). In inflation-adjusted terms, city tax burdens increased by roughly 7 percent over the 12-year period (an average annual increase of about 0.6%).



Source: City of Kirkland; King County Assessor; Berk & Associates, 2008

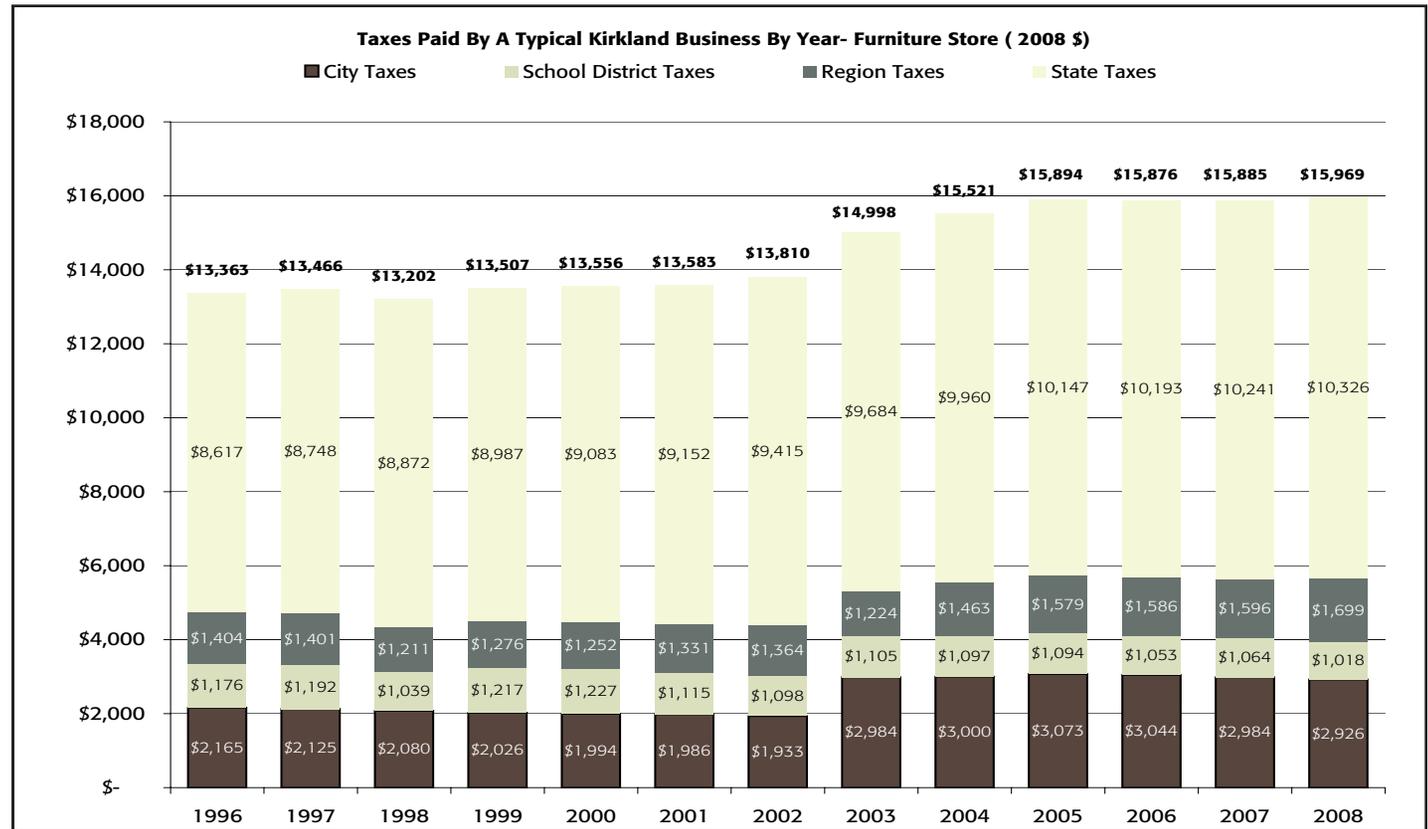


Furniture Store

Characteristics of Representative Business (2008)	
Furniture Store	
NAICS Code	442110
Number of Employees	7
Gross Revenues - Per Employee	225,875
Gross Revenues - Total	1,581,125
Floor Area Ratio (SF floor space/SF land)	0.30
Floor Area per Employee (SF)	500
Floor Area (SF)	3,500
Land Area (SF)	11,700
Taxable Assessed Value	437,500

The hypothetical furniture store is a relatively small store (3,500 square feet) with a total of 7 employees. The store is assumed to have a total assessed value of less than 440,000 (\$125 per square foot), and generate about \$1.6 million in total sales.

- As was true of the grocery store, the overall tax burden increase for the hypothetical furniture store is driven primarily by increases in state B&O taxes, with increased city taxes playing a secondary role.

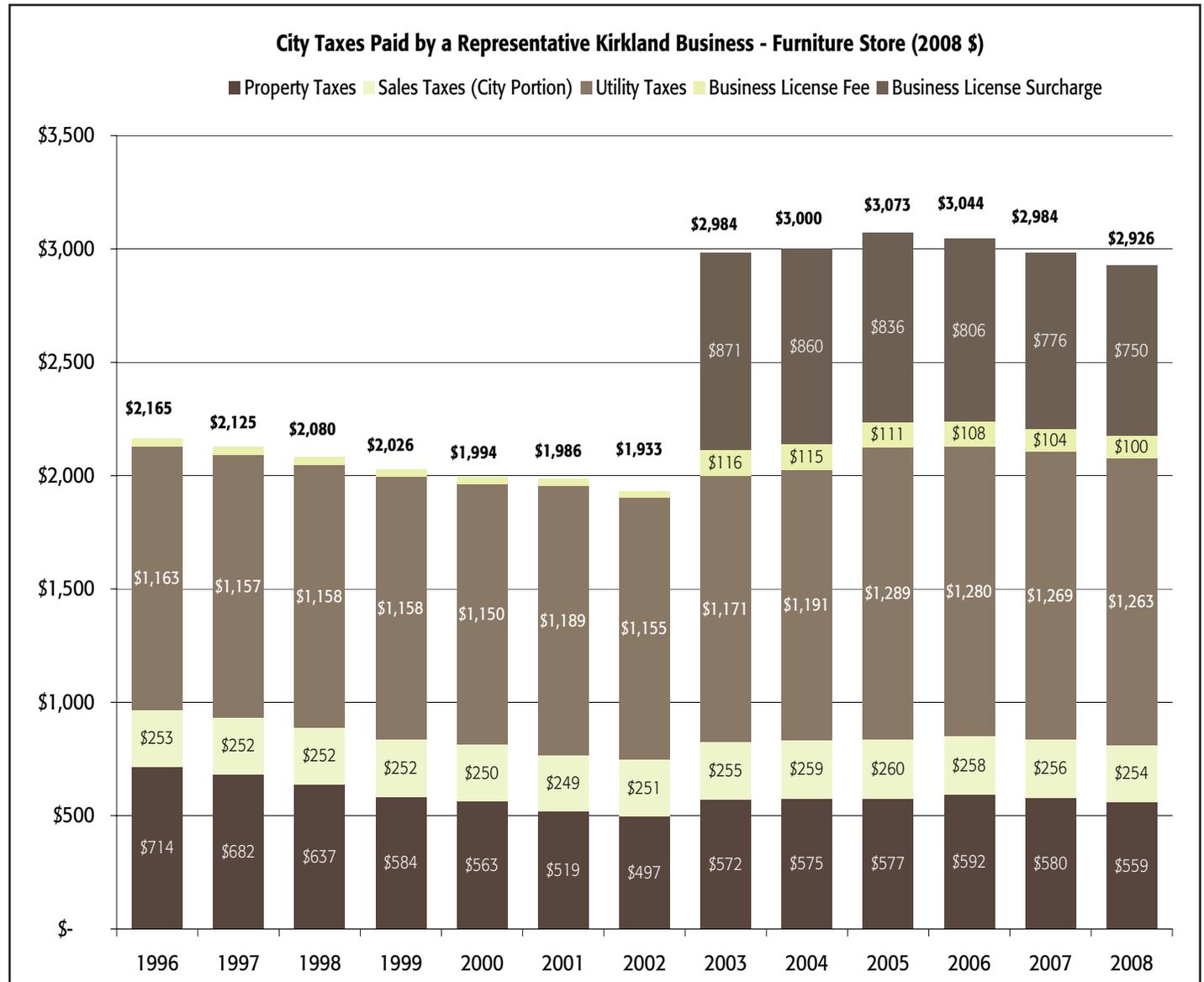


Source: City of Kirkland; King County Assessor; Berk & Associates, 2008



Furniture Store

- Increased city taxes for the furniture store came from the increased business license fee, the adoption of the business license surcharge, and increased utility taxes.
- As was true of the representative single family household, and other small businesses, the representative furniture store saw city tax increases of more than 30%.



Source: City of Kirkland; King County Assessor; Berk & Associates, 2008



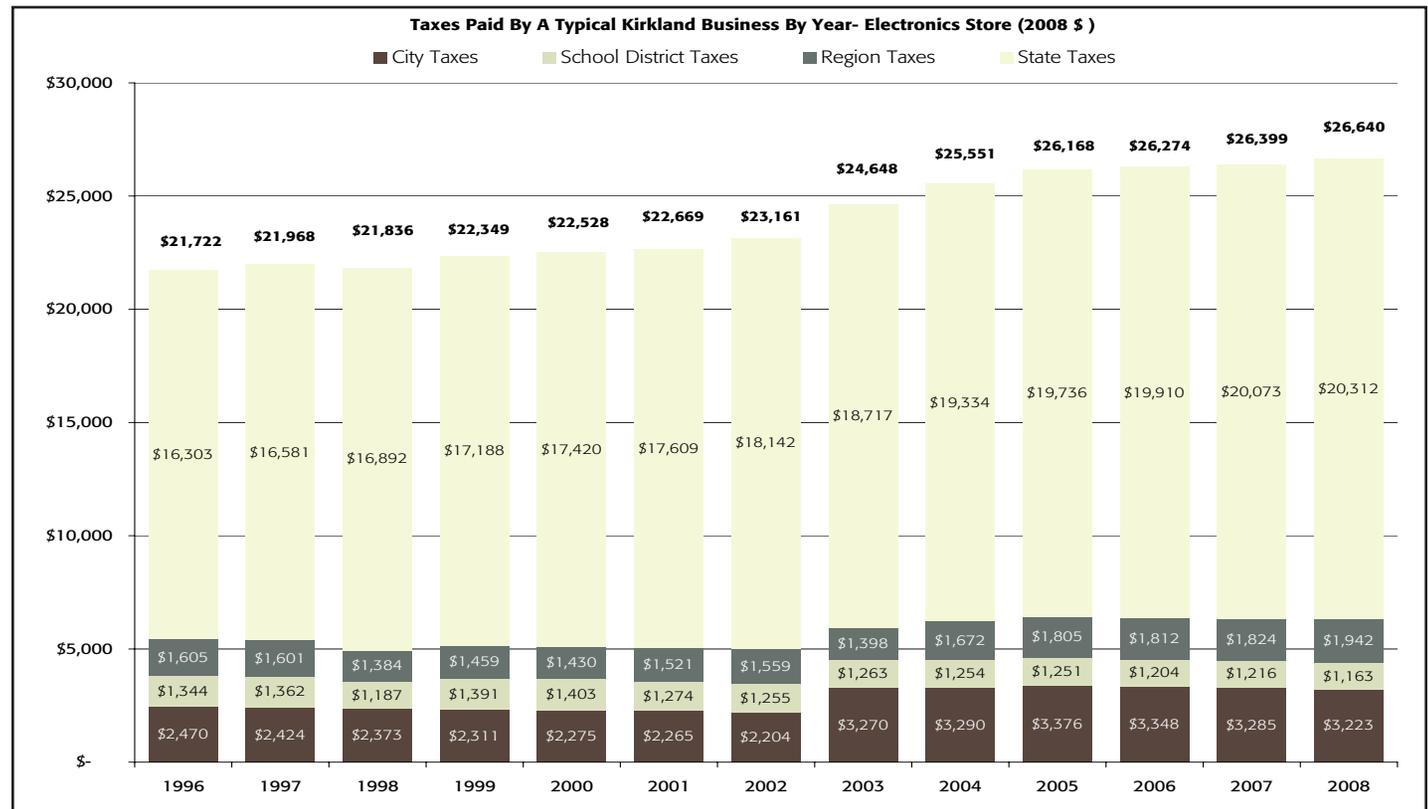
Electronics Store

Characateristics of Representative Business (2008)

Consumer Electronics Store	
NAICS Code	443112
Number of Employees	8
Gross Revenues - Per Employee	451,750
Gross Revenues - Total	3,613,999
Floor Area Ratio (SF floor space/SF land)	0.30
Floor Area per Employee (SF)	500
Floor Area (SF)	4,000
Land Area (SF)	13,300
Taxable Assessed Value	500,000

The hypothetical electronics store was designed to be similar to the representative furniture store in some ways, but different in others. The store is similar in size and number of employees, but is assumed to generate significantly higher total sales (reflecting a lower-margin business).

- For the hypothetical electronics store, as was true of the furniture store, the increase in total taxes was driven primarily by increased state taxes and secondarily by increased city taxes.

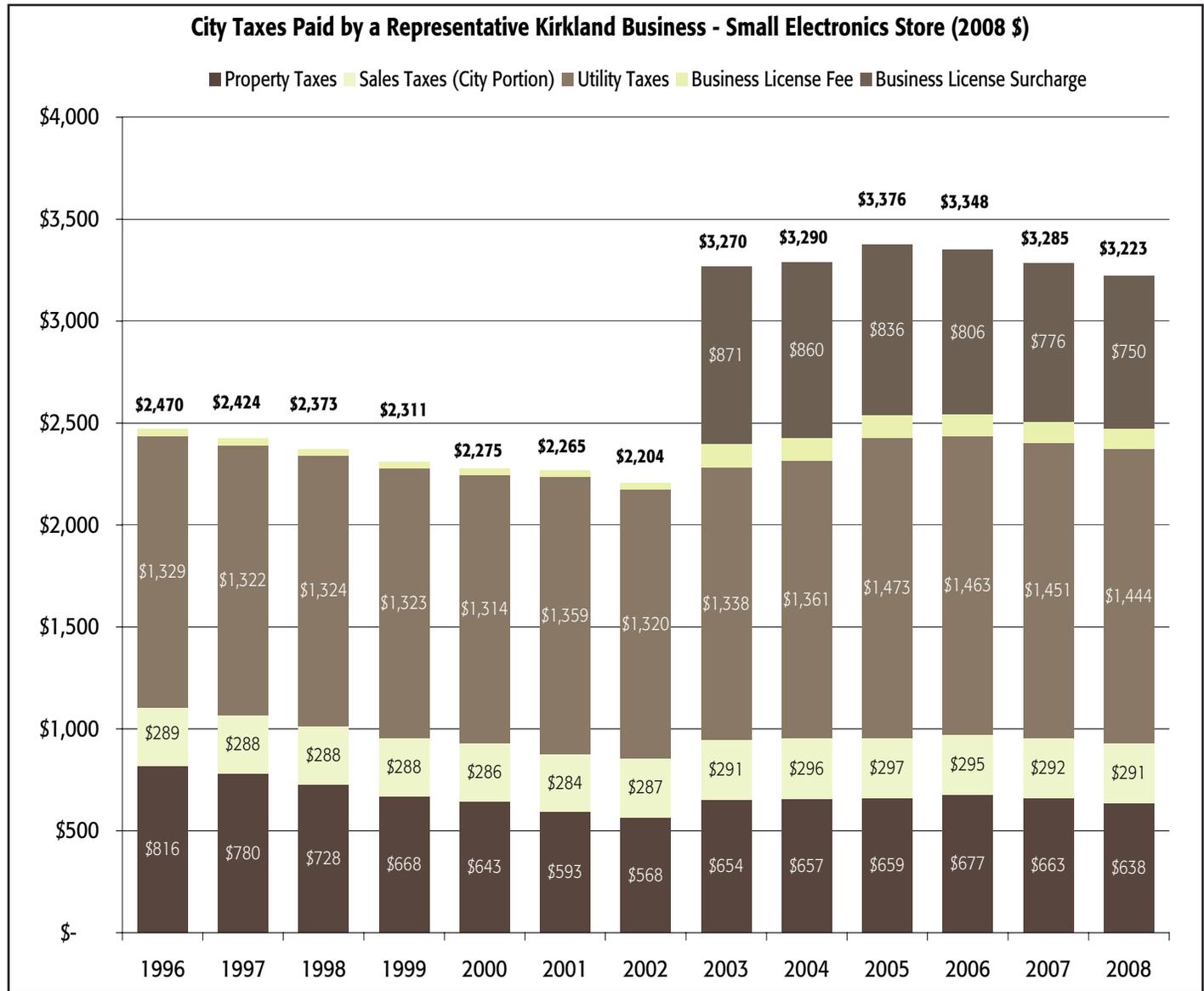


Source: City of Kirkland; King County Assessor; Berk & Associates, 2008



Electronics Store

- The electronics store also saw city tax increases in excess of 30% (in inflation-adjusted terms). With eight employees, the electronics store is among the businesses most disadvantaged by Kirkland's business license fee/surcharge structure. Like the furniture store, the business license fee and surcharge costs the business more than \$100 per employee.



Source: City of Kirkland; King County Assessor; Berk & Associates, 2008

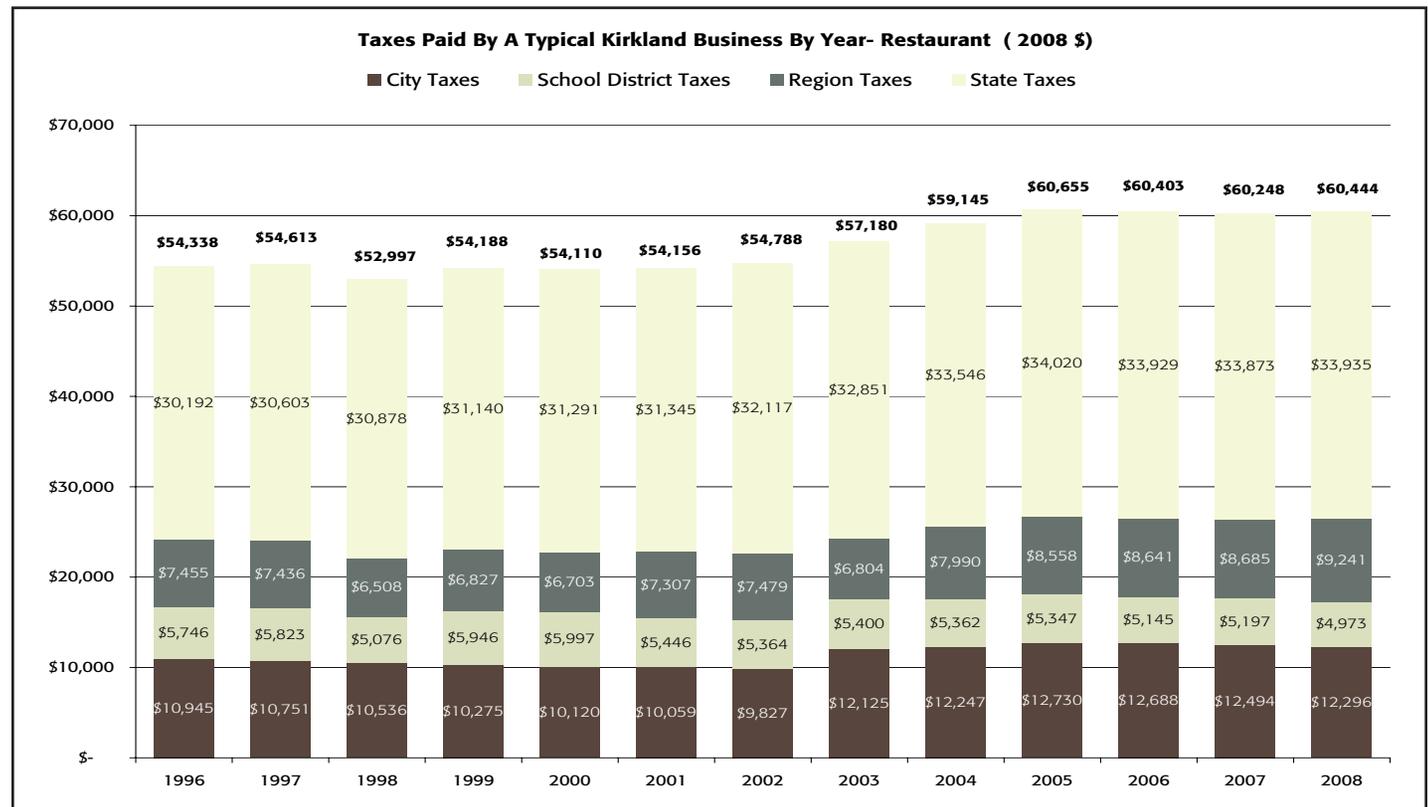


Restaurant

Characteristics of Representative Business (2008)	
Restaurant	
NAICS Code	722110
Number of Employees	57
Gross Revenues - Per Employee	60,233
Gross Revenues - Total	3,433,299
Floor Area Ratio (SF floor space/SF land)	0.30
Floor Area per Employee (SF)	300
Floor Area (SF)	17,100
Land Area (SF)	57,000
Taxable Assessed Value	2,137,500

The hypothetical restaurant reflects a big restaurant (more than 17,000 square feet) with a large number of employees (57). Gross revenues per employee are low compared to other businesses, reflecting the reality that, in many ways, restaurants tend to act more like manufacturers than retailers. Restaurants use relatively inexpensive labor and a steady supply of raw materials (mostly food) to produce goods that are sold and consumed on the premises.

- The representative restaurant, as a larger employer, and with a different operating profile than some other businesses, saw more modest increases in total tax burden.

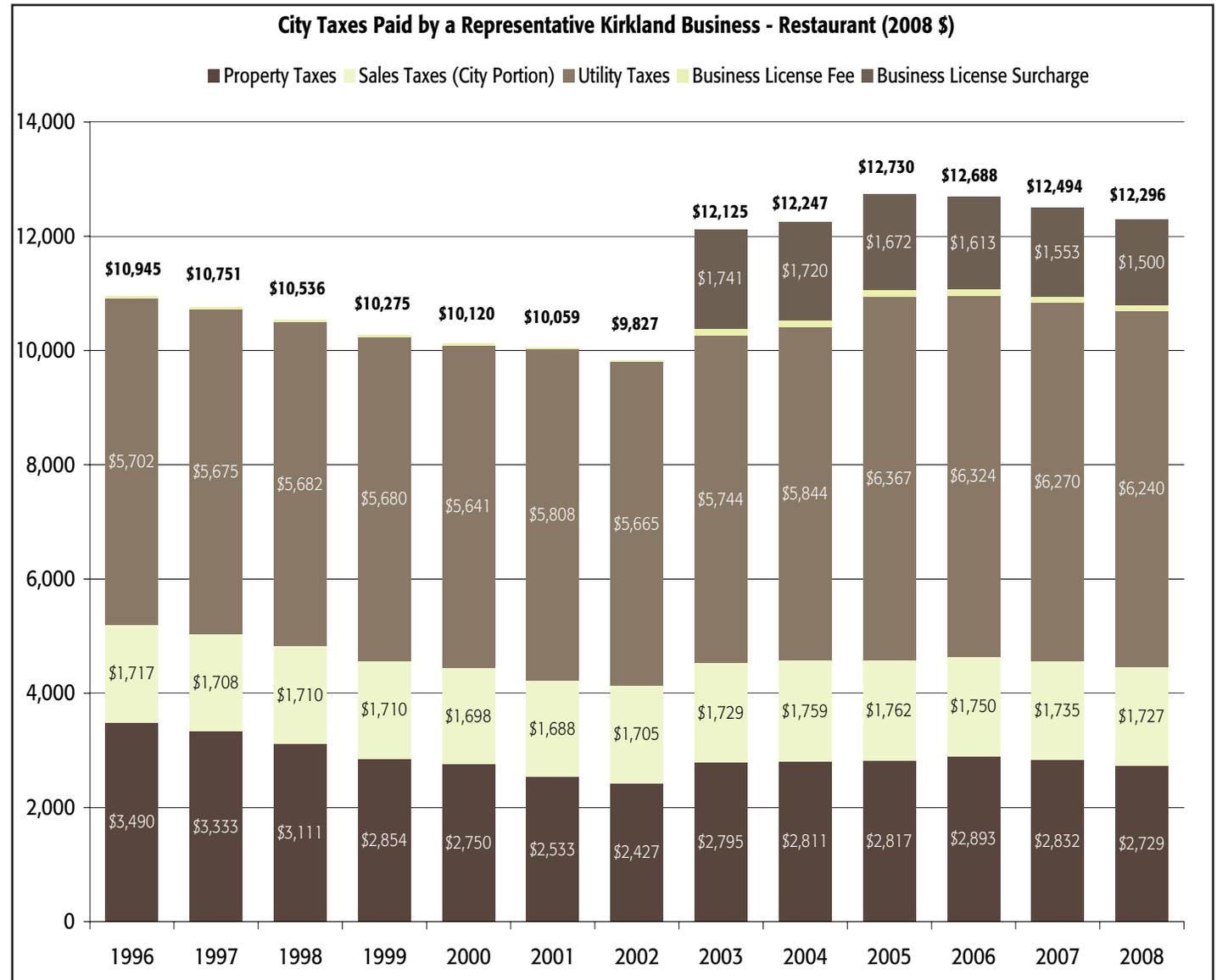


Source: City of Kirkland; King County Assessor; Berk & Associates, 2008



Restaurant

- As a mid-sized business (with an assumed 57 employees), the hypothetical restaurant saw more modest increases in city taxes (12% over the entire period, or just a bit less than 1% per year).



Source: City of Kirkland; King County Assessor; Berk & Associates, 2008



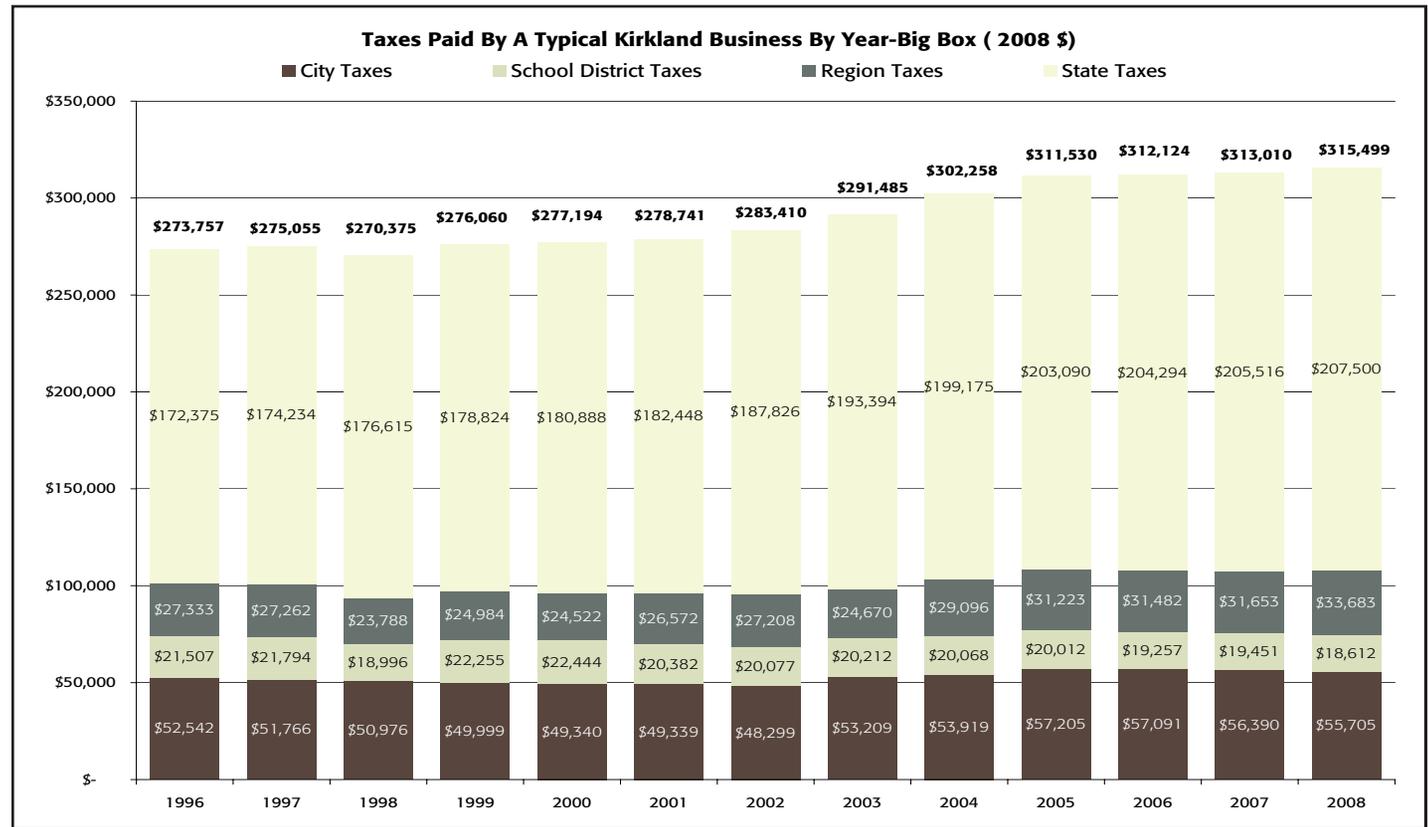
Big Box Retail

Characteristics of Representative Business (2008)

Big Box	
NAICS Code	452112
Number of Employees	165
Gross Revenues - Per Employee	186,023
Gross Revenues - Total	30,693,730
Floor Area Ratio (SF floor space/SF land)	0.35
Floor Area per Employee (SF)	606
Floor Area (SF)	100,000
Land Area (SF)	377,100
Taxable Assessed Value	8,000,000

The hypothetical big box store is assumed to be a 100,000 square foot store with 165 employees. The store is assumed to have more than 600 square feet per employee, and generate more than \$30 million in gross revenue. This translates to a bit more than \$300 in sales per square feet, a typical but certainly not spectacular performance.

- Like all other representative businesses, the hypothetical big-box retailer saw increased overall taxes. However, as a big business with many employees, the vast majority of the tax increases came at the state level.

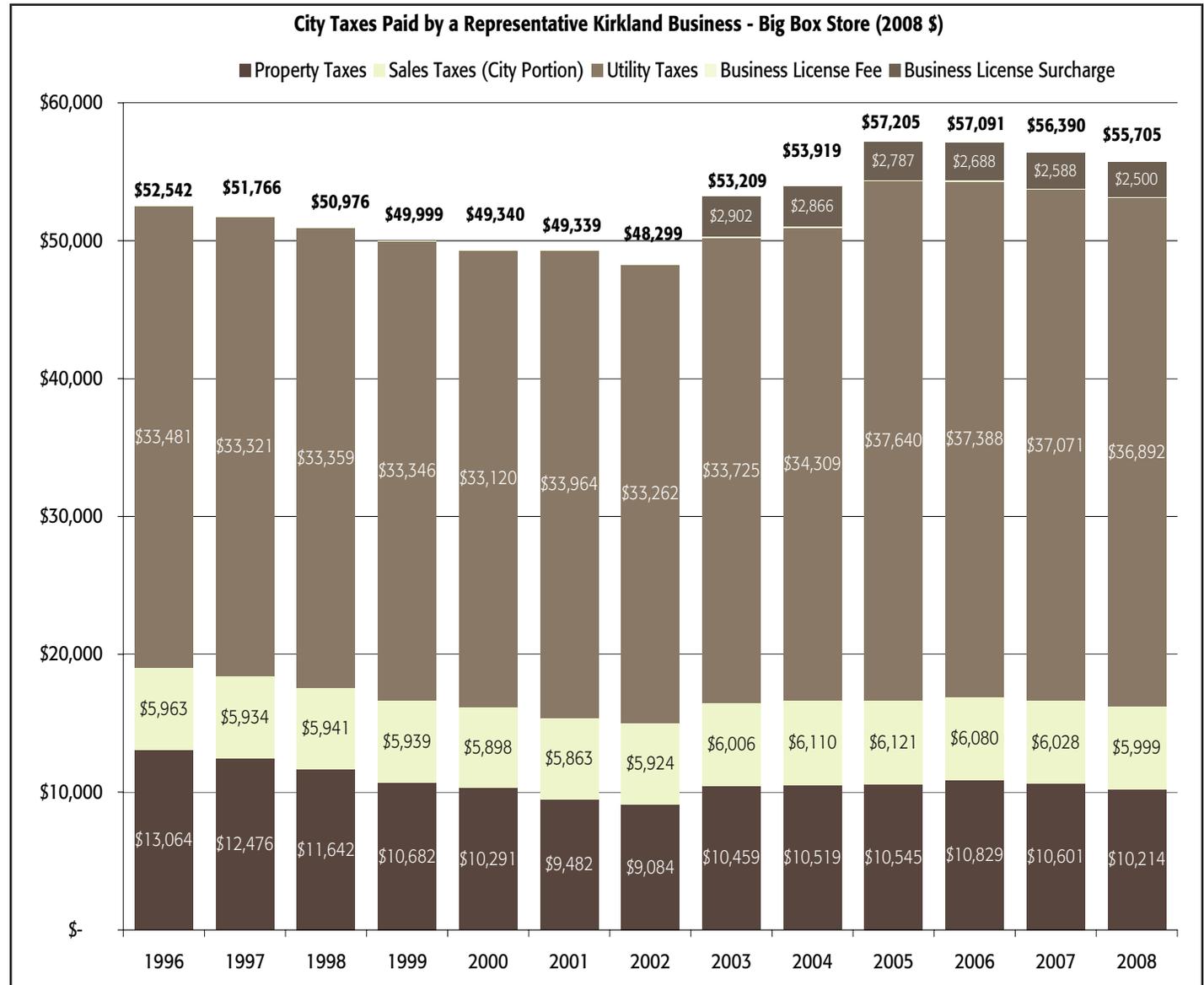


Source: City of Kirkland; King County Assessor; Berk & Associates, 2008



Big Box Retail

- At the city level, most of the tax increases seen by the big box retailer came from increased utility taxes, with the business license fee and surcharge adding an additional \$2,600.
- Overall, in inflation-adjusted terms, the big box retailer saw tax increases of 6% over the period (an average of less than 0.5% per year).



Source: City of Kirkland; King County Assessor; Berk & Associates, 2008



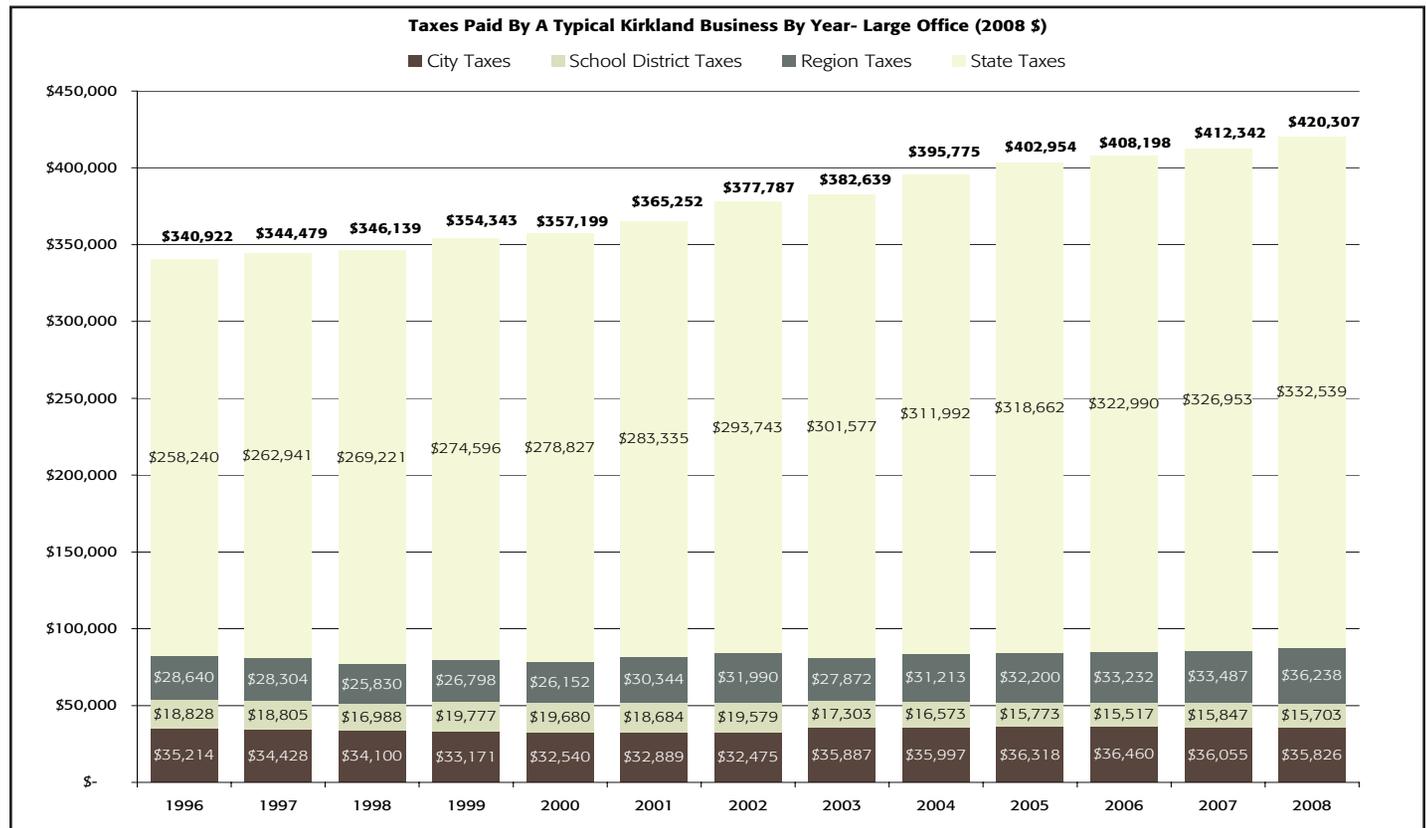
Large Office (150 FTE)

Characteristics of Representative Business (2008)

Office - Large	
NAICS Code	561421
Number of Employees	150
Gross Revenues - Per Employee	110,507
Gross Revenues - Total	16,576,020
Floor Area Ratio (SF floor space/SF land)	0.40
Floor Area per Employee (SF)	300
Floor Area (SF)	45,000
Land Area (SF)	112,500
Taxable Assessed Value	6,750,000

The hypothetical large office user has 150 employees and takes up 45,000 square feet of office space, valued at \$150 per square foot. Compared with the mid- and small-size office users, the large office user is assumed to generate less revenue per employee (roughly \$110,000 in 2008).

- In terms of its tax profile, the hypothetical large office user has experienced overall tax increases similar to those seen by the big box retailer.

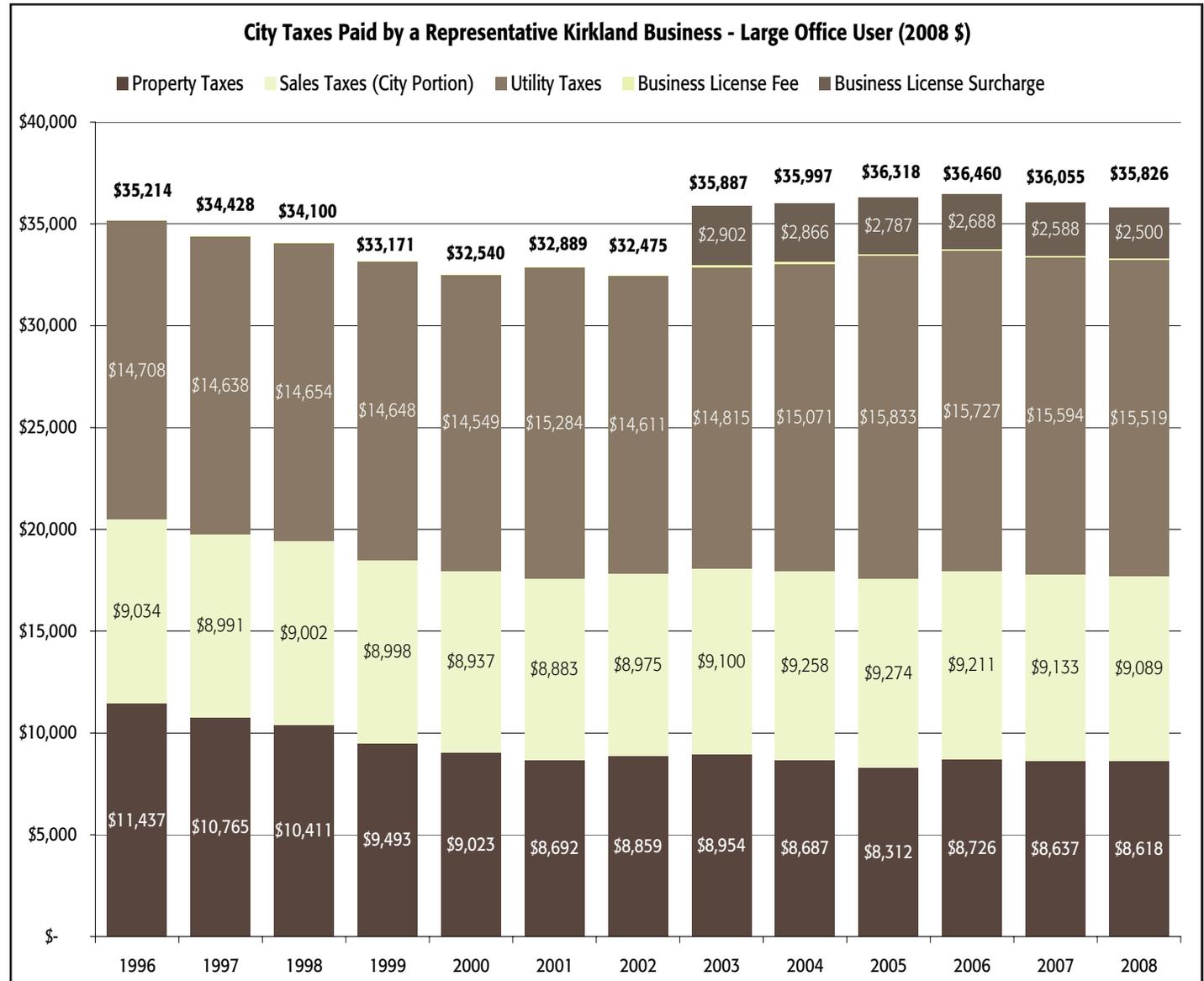


Source: City of Kirkland; King County Assessor; Berk & Associates, 2008



Large Office (150 FTE)

- As a large business (for whom Kirkland's license fee/surcharge structure is most advantageous, and it is assumed, a more modest consumer of utilities, the large office user saw city tax increases of only 2% over the entire period.



Source: City of Kirkland; King County Assessor; Berk & Associates, 2008



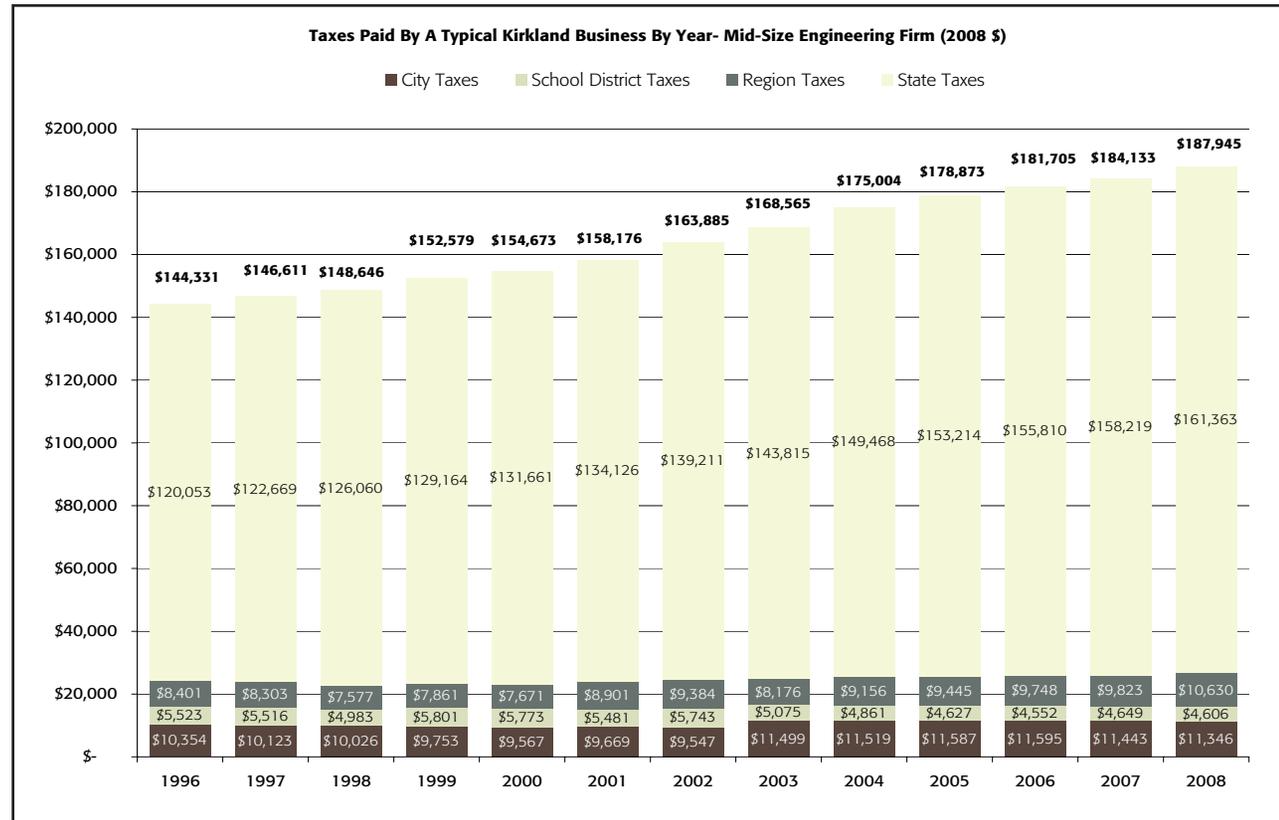
Engineering Firm/Medium Office

Characateristics of Representative Business (2008)

Engineering Services	
NAICS Code	541,330
Number of Employees	44
Gross Revenues - Per Employee	207,200
Gross Revenues - Total	9,116,811
Floor Area Ratio (SF floor space/SF land)	0
Floor Area per Employee (SF)	300
Floor Area (SF)	13,200
Land Area (SF)	3,300
Taxable Assessed Value	1,980,000

The mid-size office user is based on the hypothetical engineering firm that was used in Kirkland's 2001 *Tax Burden Study*. The firm has 44 employees and is assumed to generate a bit more than \$200,000 in revenue per employee. With 13,200 square feet of office space, the firm represents an efficient user of space.

- The hypothetical engineering firm saw also saw total tax increases being driven by state B&O taxes.

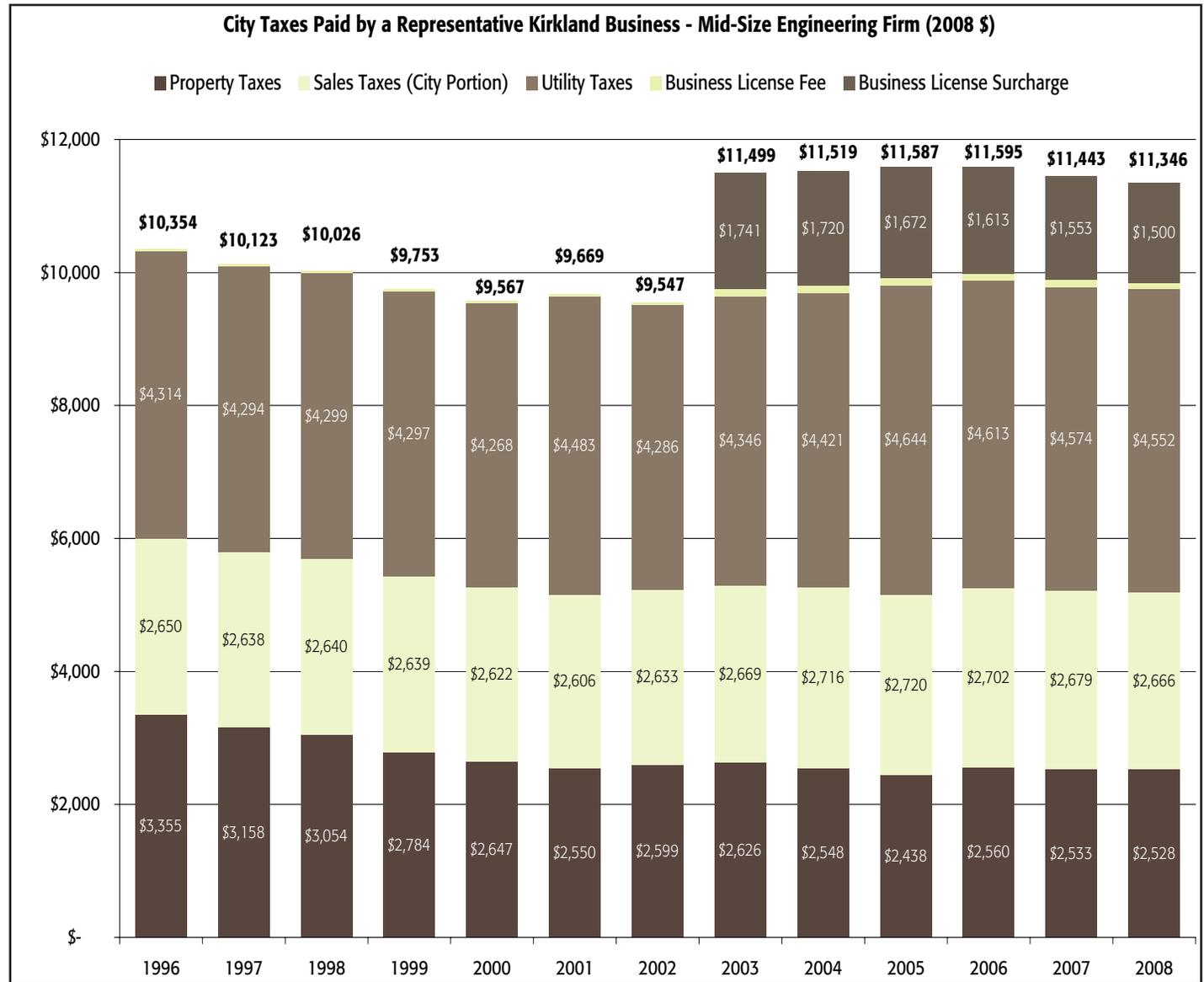


Source: City of Kirkland; King County Assessor; Berk & Associates, 2008



Engineering Firm/Medium Office

- At the city level, increases in utility taxes more-or-less canceled out inflation-adjusted decreases in property taxes.
- As a medium-sized business, the engineering firm saw increases of 10% over the period. In per-employee terms, the business license fee/surcharge cost the firm less than \$30 per employee. As a result, the engineering firm saw percentage increases in city taxes that were substantially less than increases seen by small businesses.



Source: City of Kirkland; King County Assessor; Berk & Associates, 2008

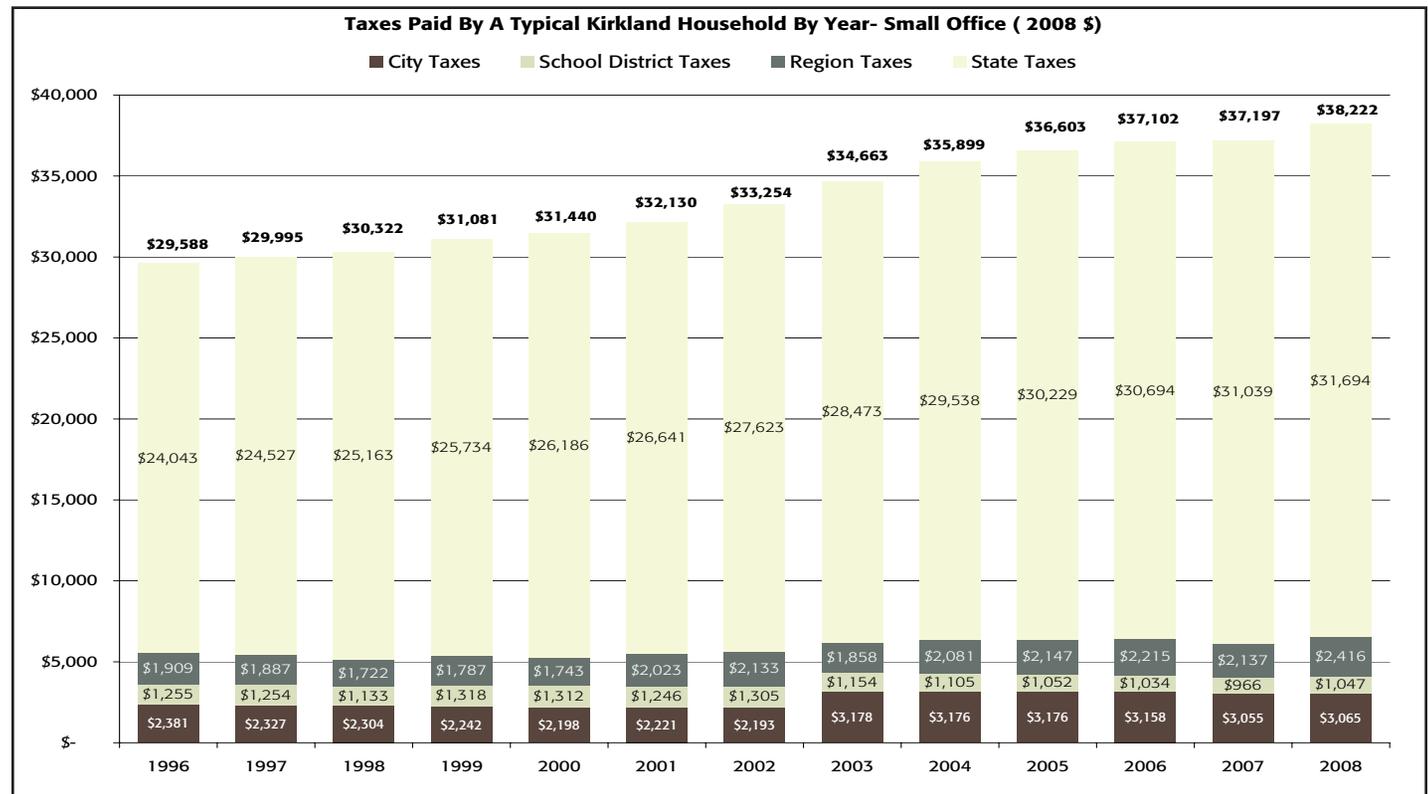


Small Office (10 FTE)

Characteristics of Representative Business (2008)	
Office - Small	
NAICS Code	541380
Number of Employees	10
Gross Revenues - Per Employee	174,004
Gross Revenues - Total	1,740,045
Floor Area Ratio (SF floor space/SF land)	0.40
Floor Area per Employee (SF)	300
Floor Area (SF)	3,000
Land Area (SF)	7,500
Taxable Assessed Value	450,000

The hypothetical small office user is a firm of 10 employees, with gross revenues per employee that approach those of the engineering firm (\$174,000 per employee versus the \$210,000 per employee for the engineering firm). Again, the small office user is assumed to use 300 square feet of office space per employee, and the space is assumed to be valued at \$150 per square foot.

- The hypothetical small office user saw more marked increases in total taxes, drive by both state and city taxes.

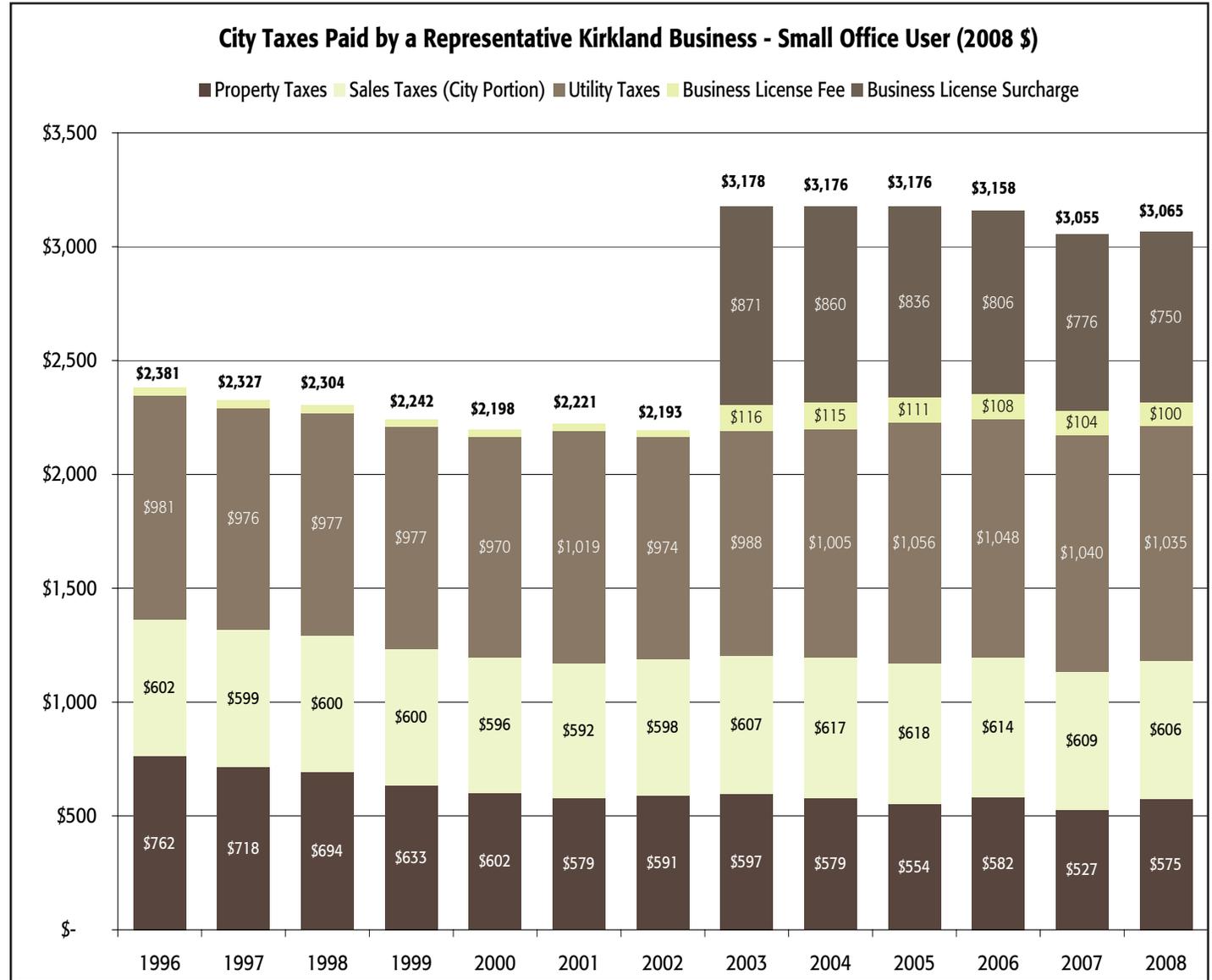


Source: City of Kirkland; King County Assessor; Berk & Associates, 2008



Small Office (10 FTE)

- In inflation-adjusted terms, the small office user saw increases in city taxes of a bit less than 30%.



Source: City of Kirkland; King County Assessor; Berk & Associates, 2008

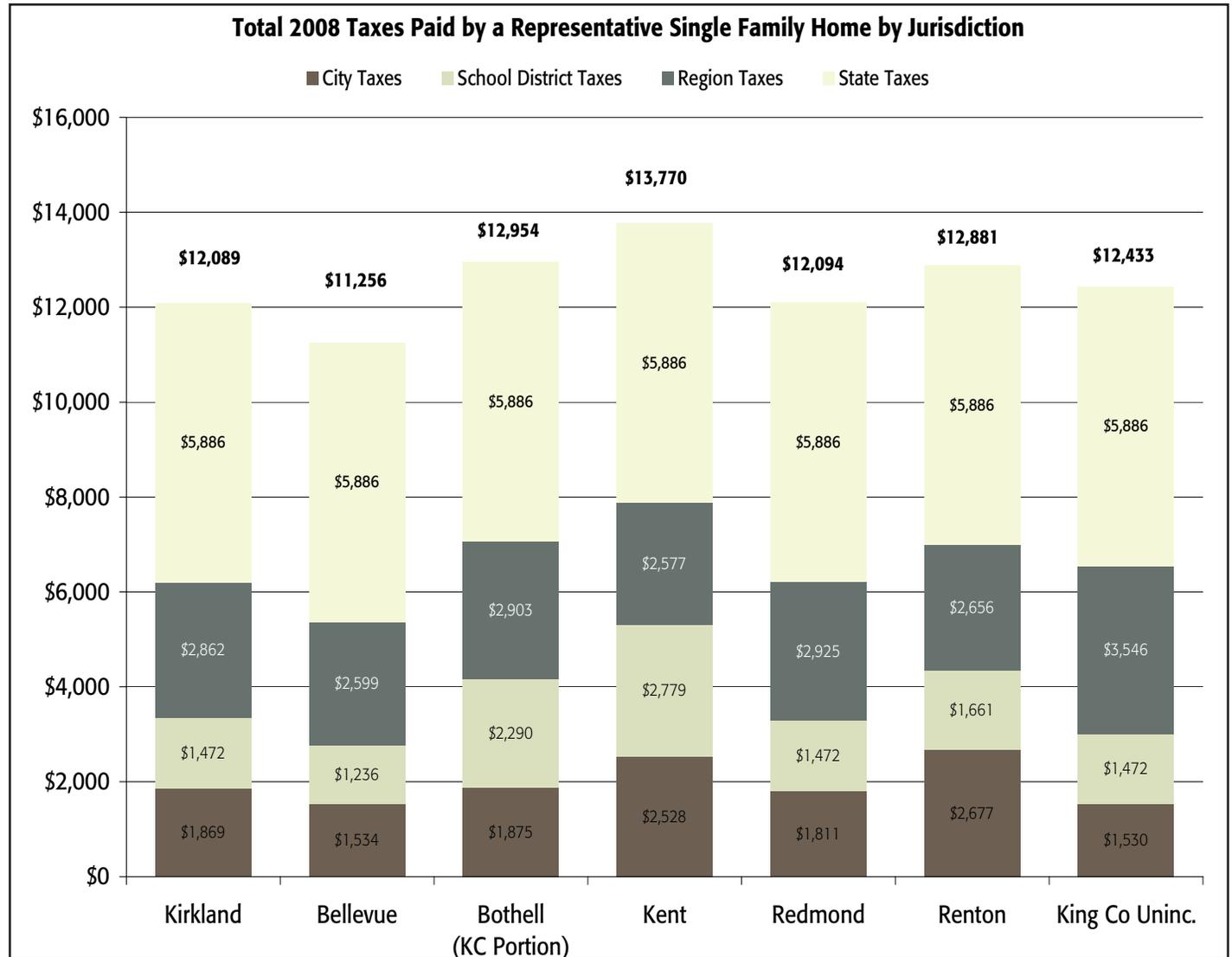


2008 PEER CITY COMPARISONS

PRESENTATION OF DETAILED ANALYTIC FINDINGS

Single-Family Household

- Comparisons of tax burdens among jurisdictions present information about what a given taxpayer would pay (in 2008) if one were to lift that specific taxpayer up and put them down in a different place. For the single family household, for example, the comparison assumes the household would have the same house (with the same assessed value) the same income, the same number and value of cars, etc. Differences in tax burdens, therefore, are entirely a function of different tax structures and rates among jurisdictions.
- For single family households (and all other representative taxpayers), the biggest drivers of tax burden variation are differences in school and city taxes.
- Overall, the cities with the lowest burdens: Bellevue, Redmond, and Kirkland, are the cities with the highest underlying property values.

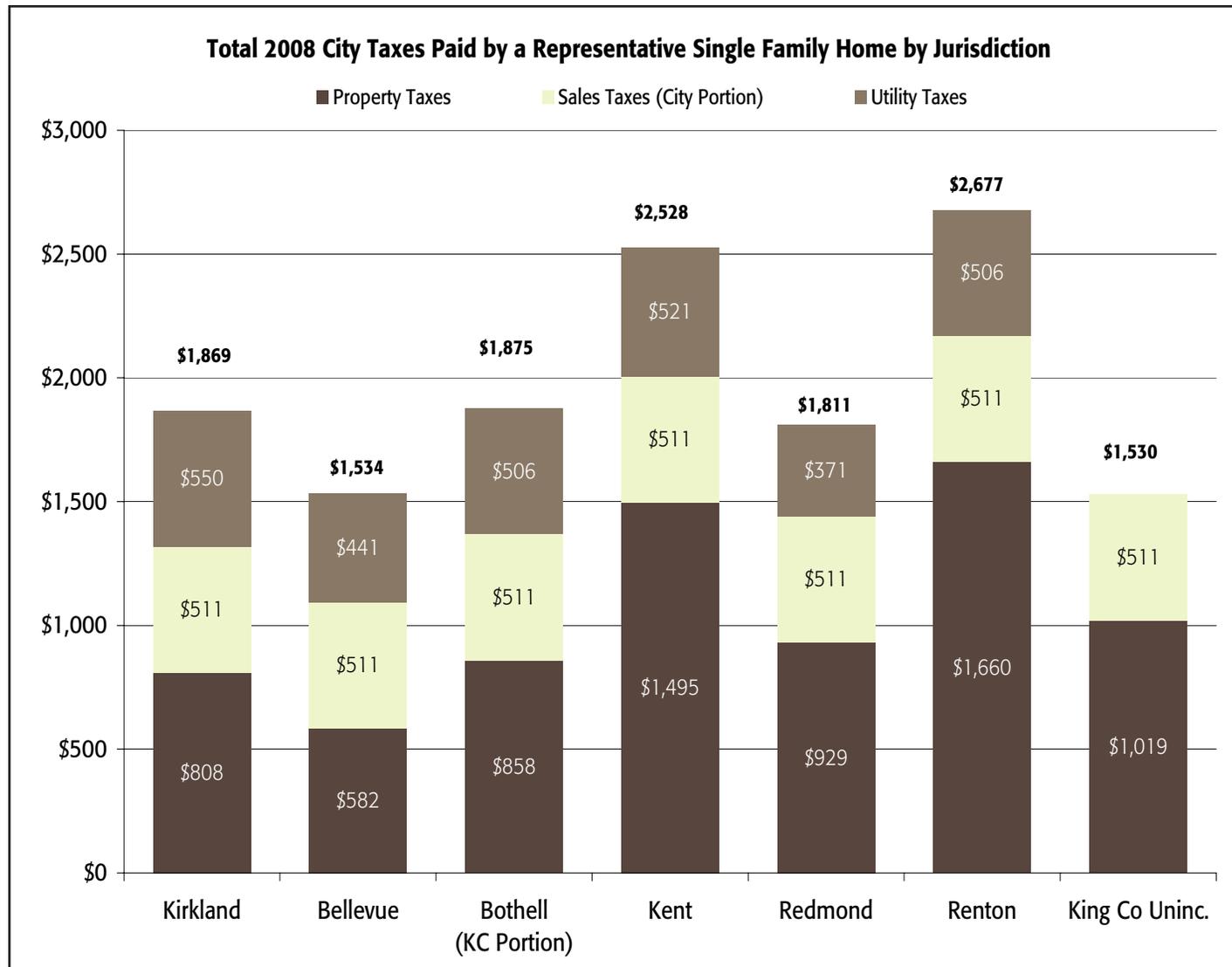


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Single-Family Household

- Consistent with the pattern for total taxes, the cities with the lowest city tax burdens were Bellevue, Redmond, and Kirkland—and most of the reduced burden is the result of lower city property tax levies.
- Unincorporated King County is not a city, so the term “city taxes” is not as meaningful. For this and all other representative taxpayers, the “city” property tax presented for unincorporated King County refers to the unincorporated county Road Levy—the one tax that would certainly go away if the area were to incorporate or be annexed. In case of unincorporated King County, lower “city” tax burdens are offset by higher “regional” taxes due to levies like the fire district levy.

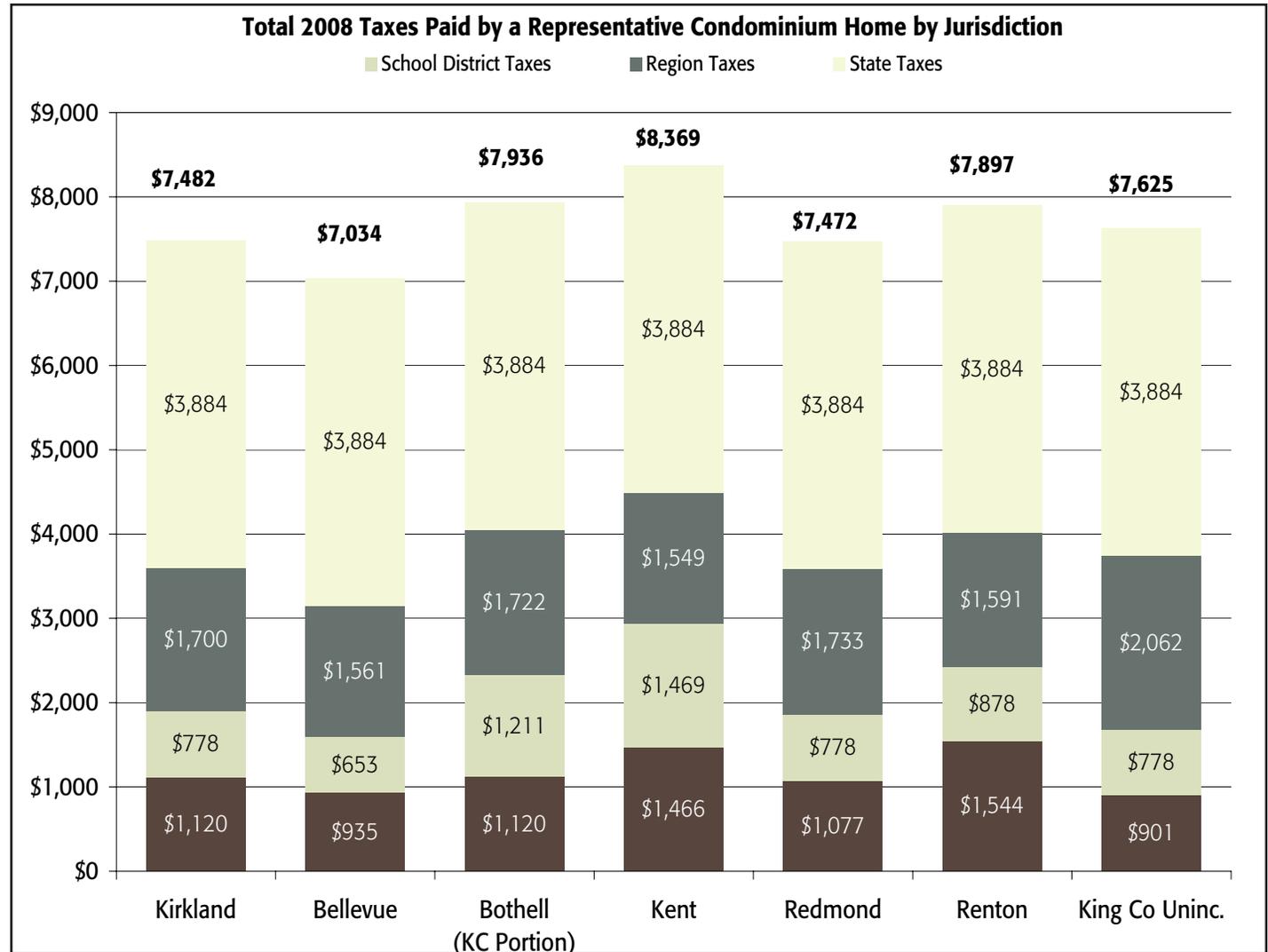


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Condominium

- Taxes on the condominium taxpayer reflect the same pattern as taxes on the single family household, with the lowest taxes being levied by Bellevue, with Redmond and Kirkland coming in second and third, respectively.

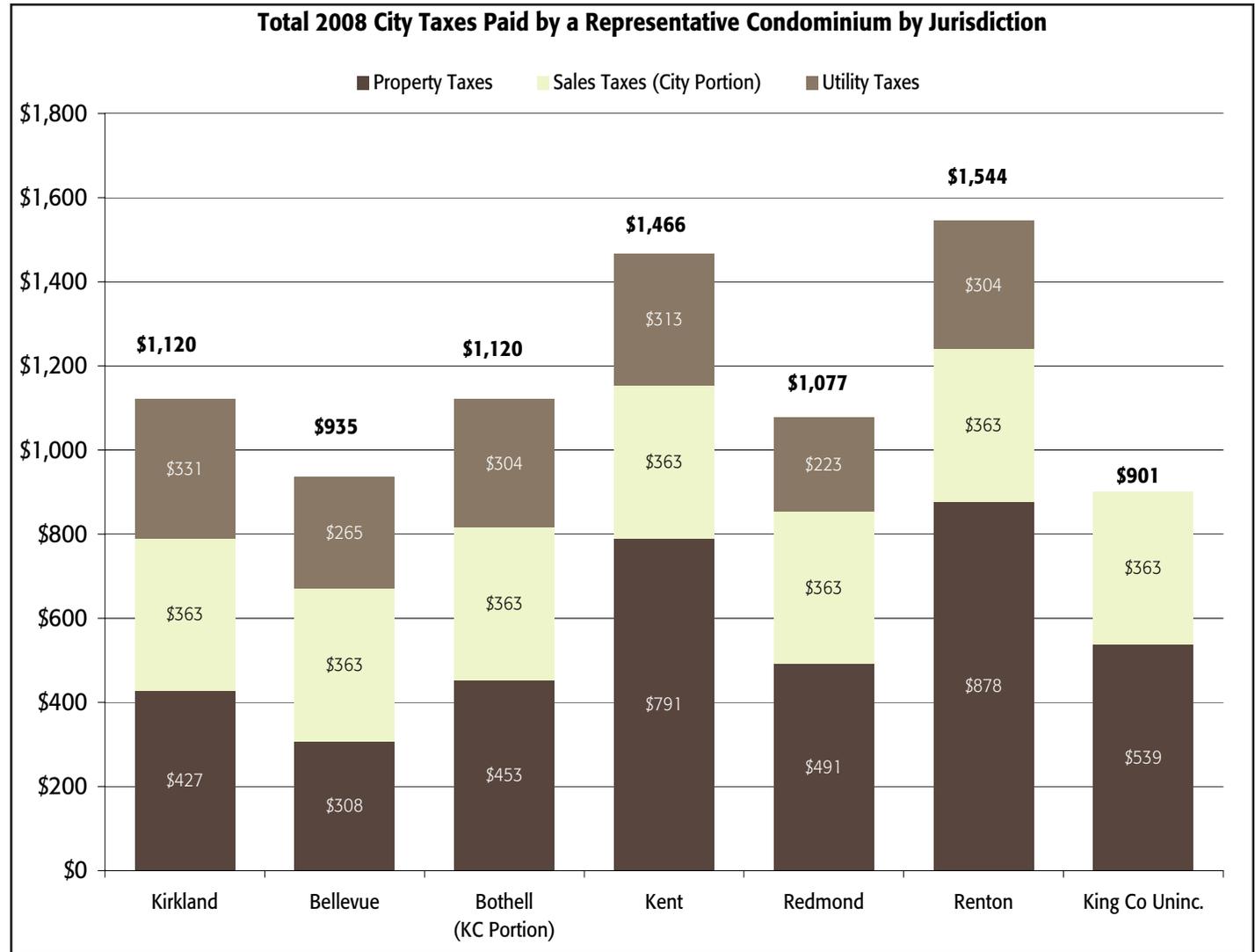


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Condominium

- While the pattern of tax burdens for the condominium household are similar to those of the single family household, in absolute terms, the condominium taxes are lower (perhaps equal to 60% of the taxes paid by the single family household). This lower figure reflects the combination of lower property value of the home, lower assumed income, and a smaller household size (which translates into reduced usage of things like utilities).

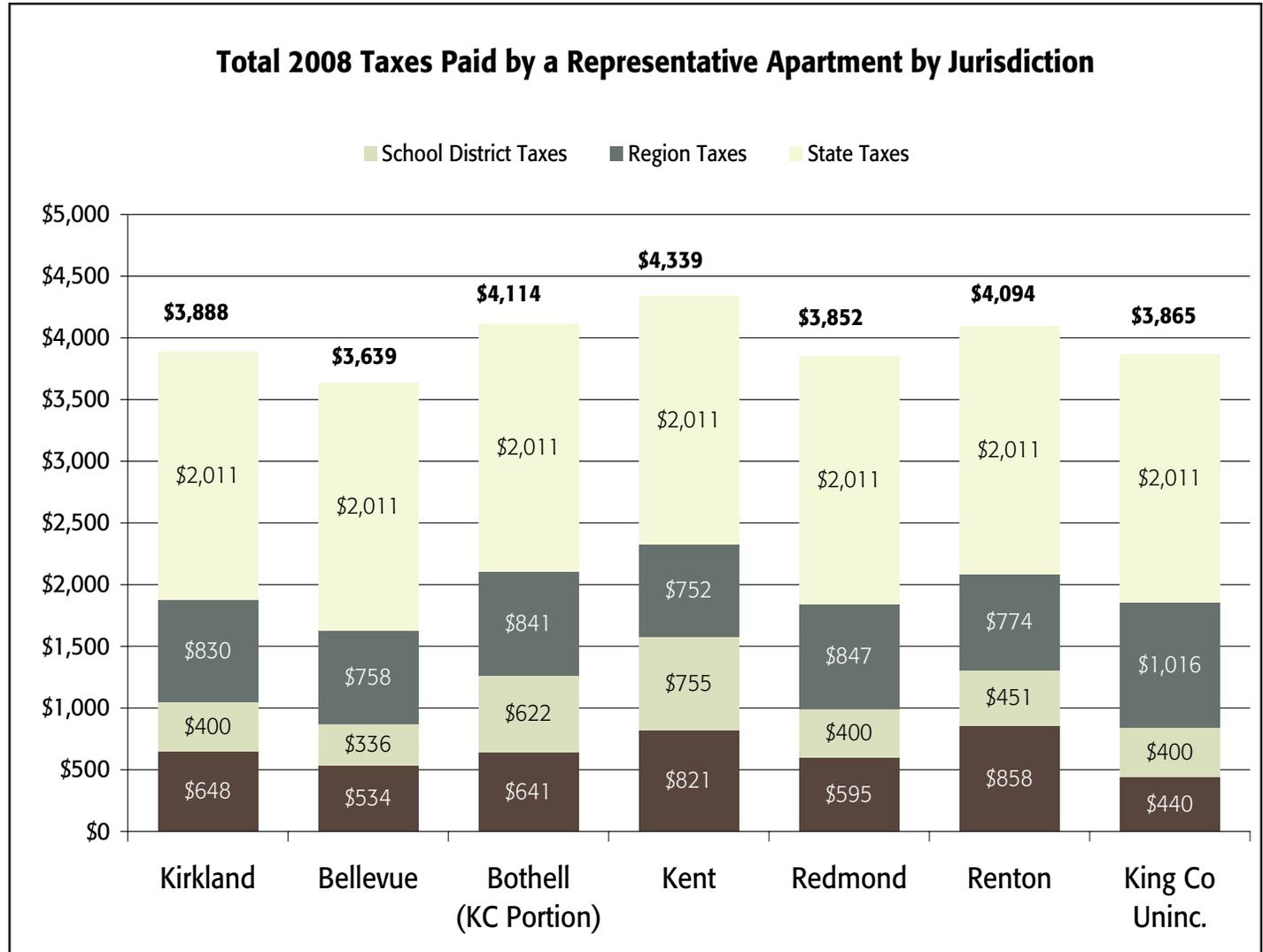


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Apartment Rental

- Total taxes paid by the representative apartment household in Kirkland fall a bit higher in the scale when compared to the other jurisdictions (i.e. the Kirkland tax burden is higher than it would be in unincorporated King County and closer to the tax burdens in Bothell, Kent, and Redmond). This difference is almost entirely due to higher city taxes in Kirkland.

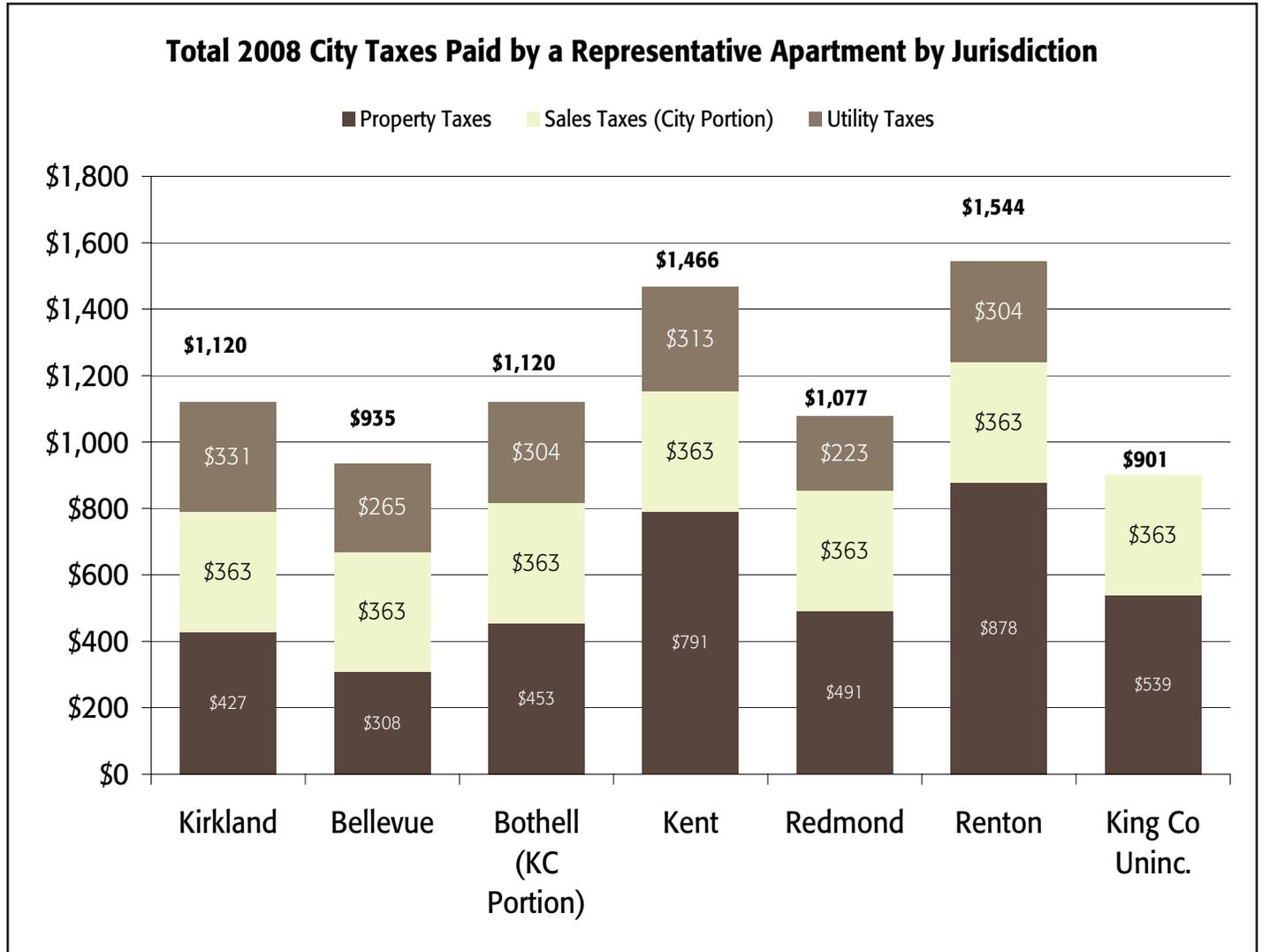


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Apartment Rental

- In the case of the apartment household, Kirkland's city tax burden is higher than the burden in Redmond, and equal to the burden in Bothell. The difference for the apartment household (compared to the single family and condominium household) is driven by Kirkland's higher utility taxes. Apartments have lower assessed values, so they pay less in property taxes (indirectly, through higher rents), but they tend to use similar amounts of utilities. Therefore, utility taxes rates become a bigger deal for apartment dwellers.

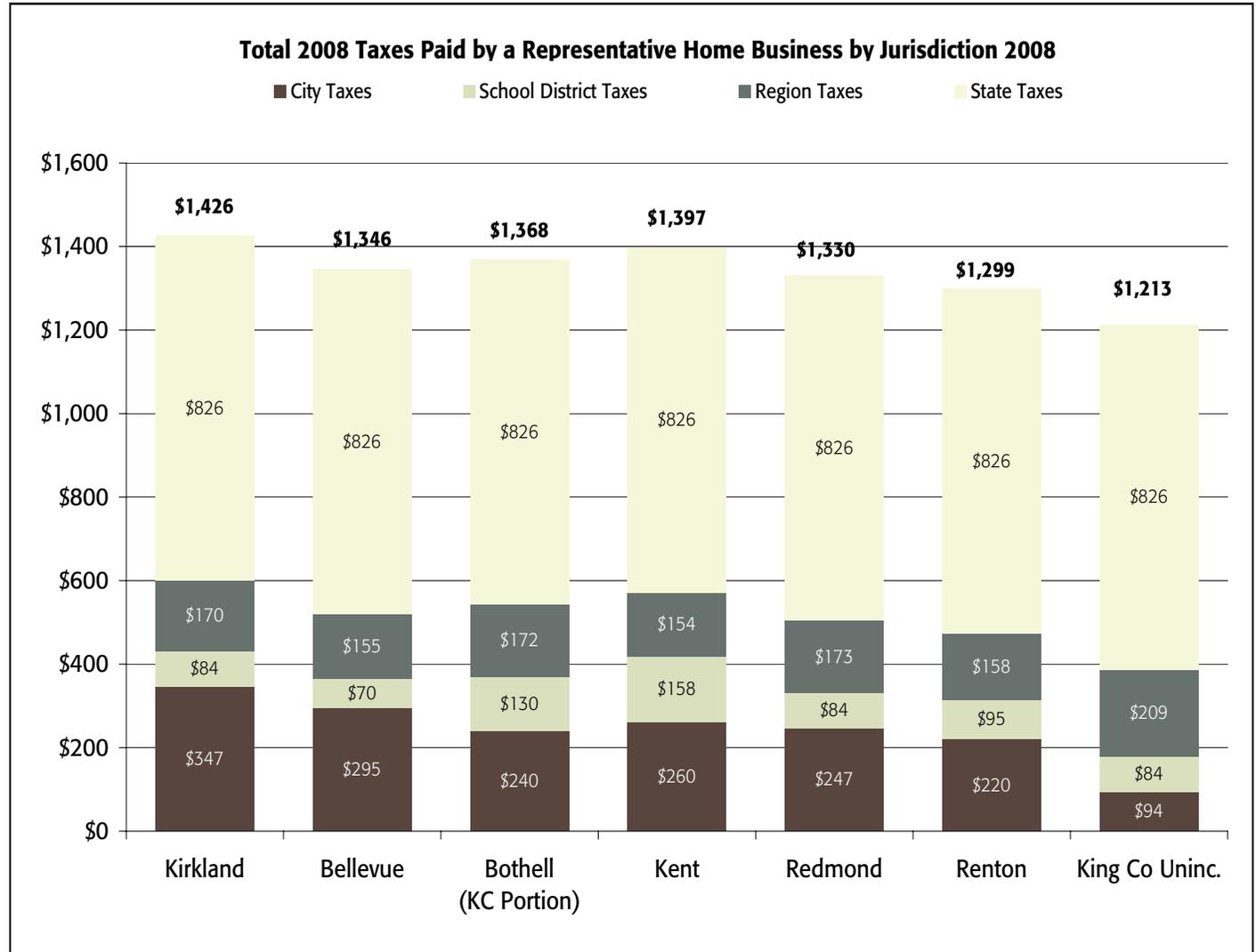


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Home Business

- Overall tax burdens for the representative home-based business are higher in Kirkland than in any other jurisdiction. This is almost entirely due to higher city taxes.

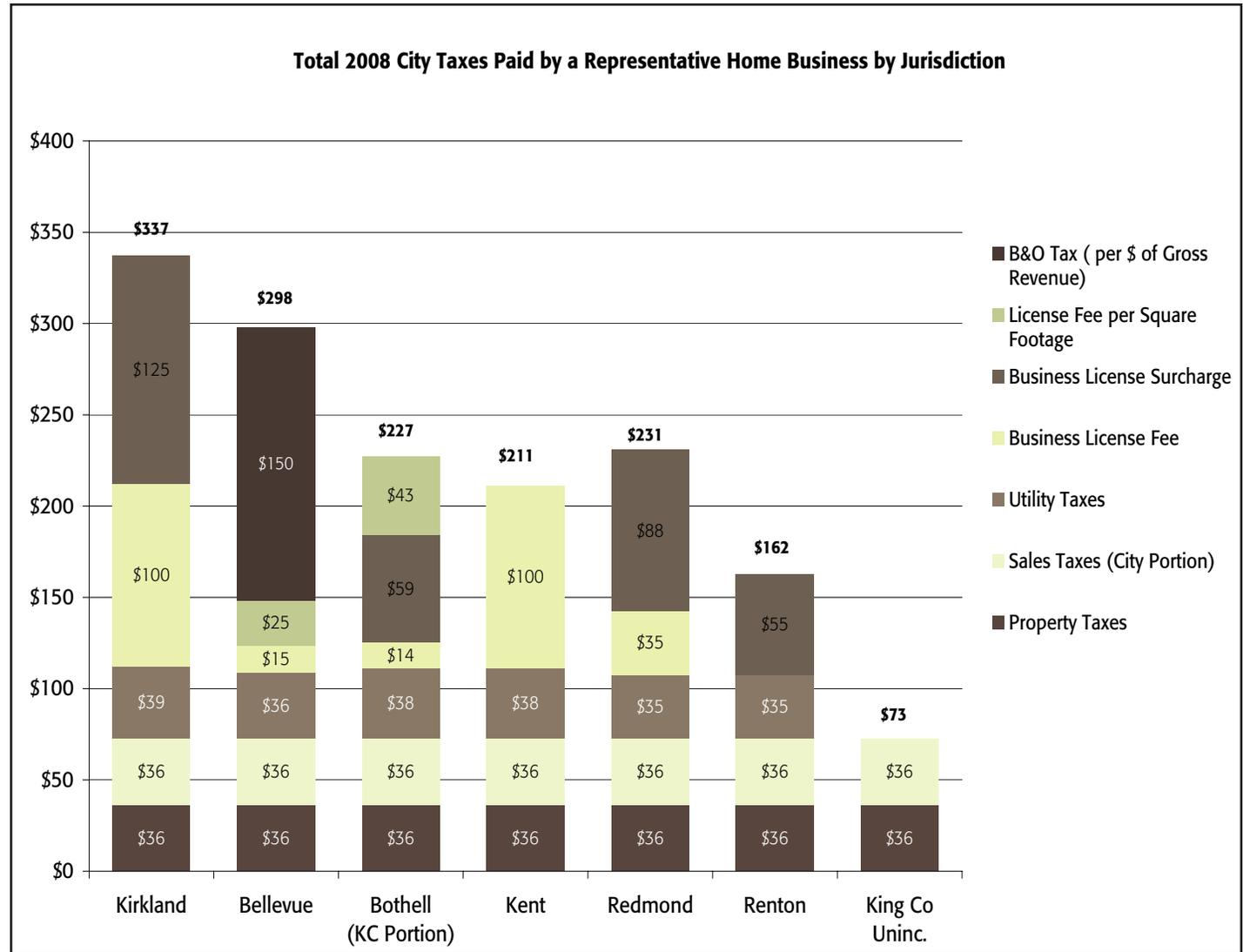


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Home Business

- The structure of Kirkland's existing business license fee a surcharge means that a home-based business with \$100,000 of gross revenues pays \$225 each year for its business license fee and surcharge. On a per-employee basis, this amount is more than 10 times greater than the amount paid by a large firm that employs 130 people.

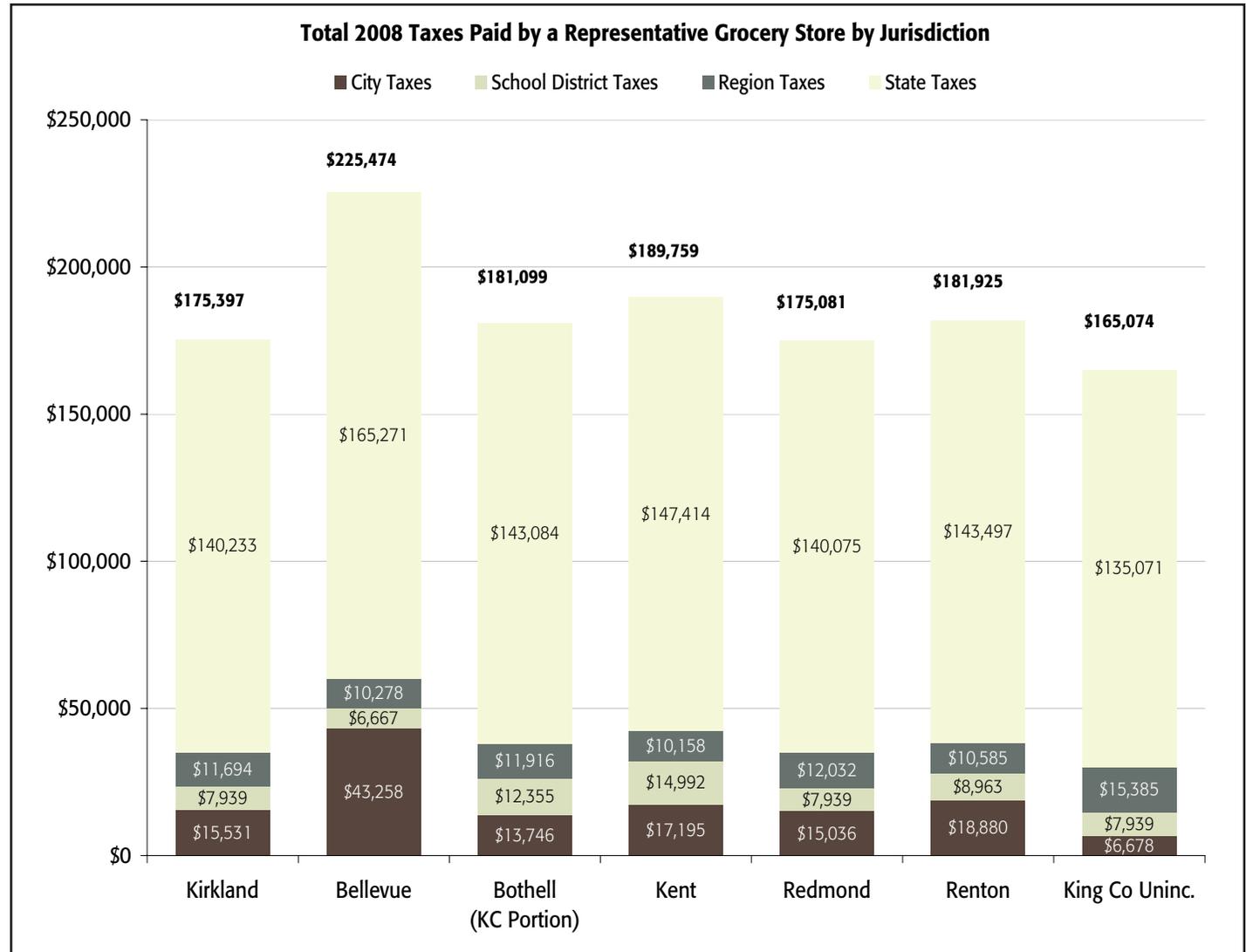


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Grocery Store

- For a grocery store, much more of the total tax burden is centered around the state's B&O tax, which is calculated as a percent of gross revenues. Grocery stores have high gross revenues but relatively low profit margins. These are the businesses that are most disadvantaged by reliance on B&O taxes as opposed to some form of tax on profits.

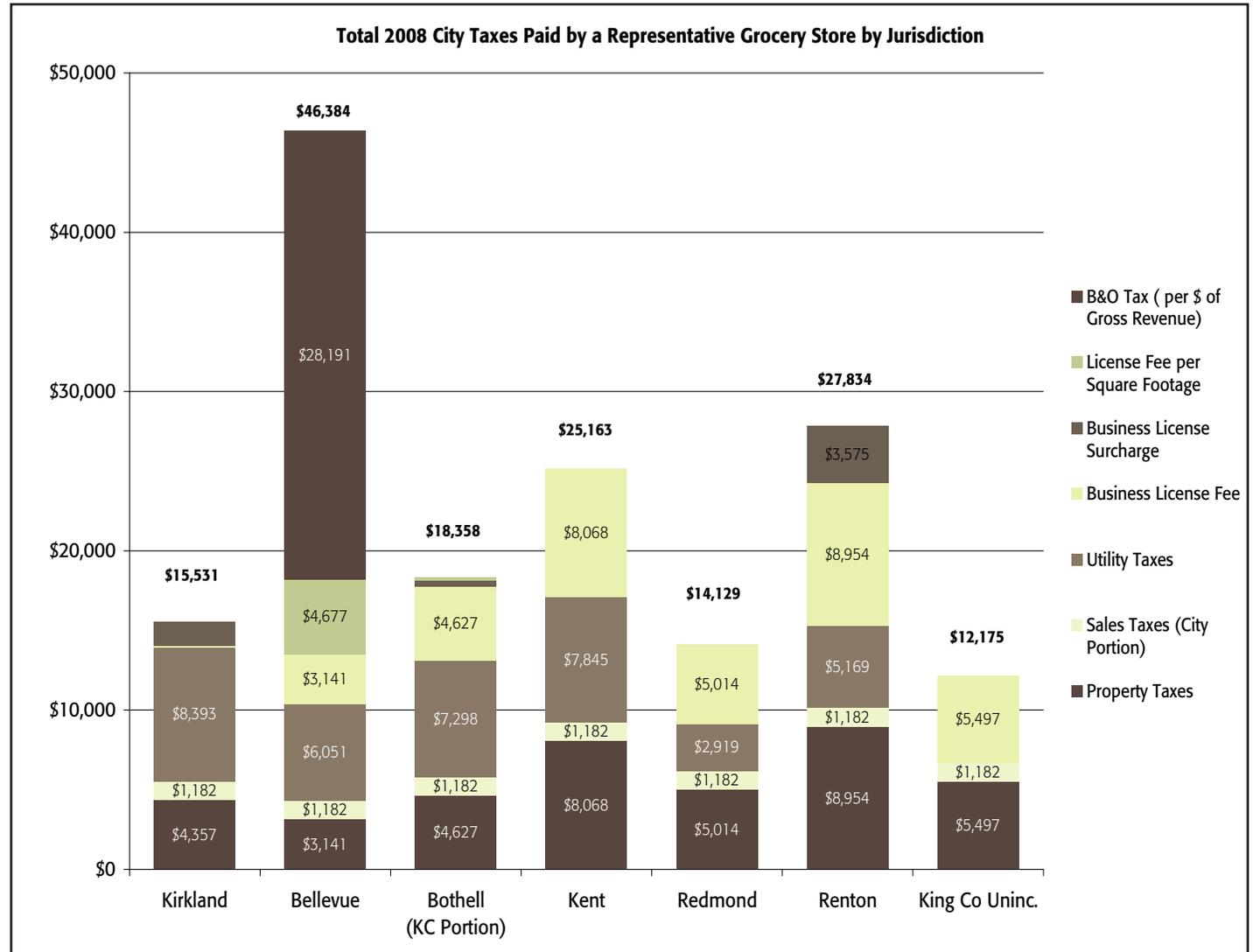


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Grocery Store

- The representative grocery store is assumed to have 65 employees, so in relative terms, the impact of Kirkland's business license fee and surcharge is much smaller. For these mid-sized to large employers, Kirkland's tax burdens are quite low compared with most other jurisdictions.
- Bellevue is the only jurisdiction that levies a city B&O tax. As a result, Bellevue's tax burden on the grocery store is roughly three times greater than Kirkland's.

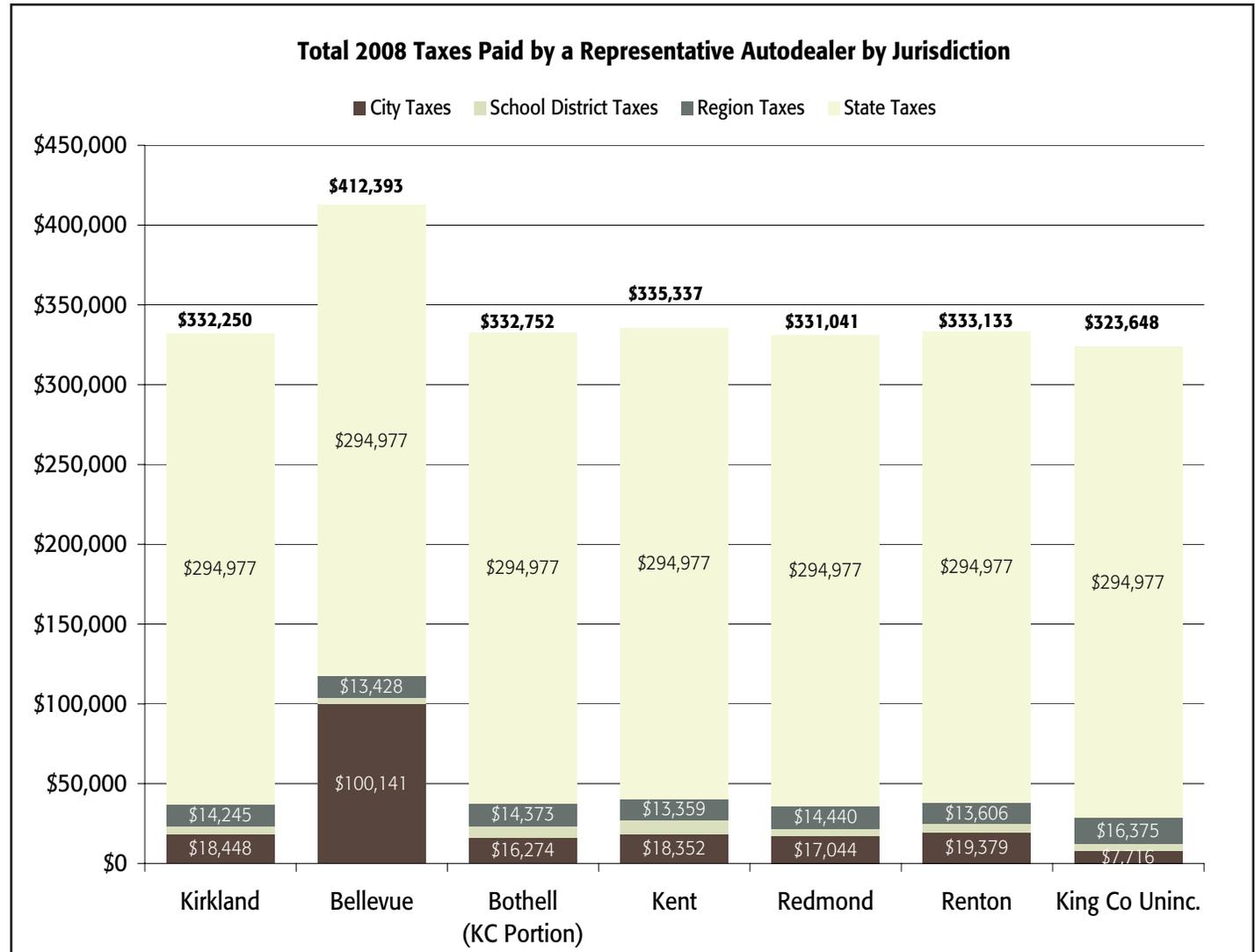


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Auto Dealer

- Like grocery stores, auto dealers have very high gross revenues but relatively low profit margins. For auto dealers, then, the impact of B&O taxes tend to dwarf the impact of all other taxes.

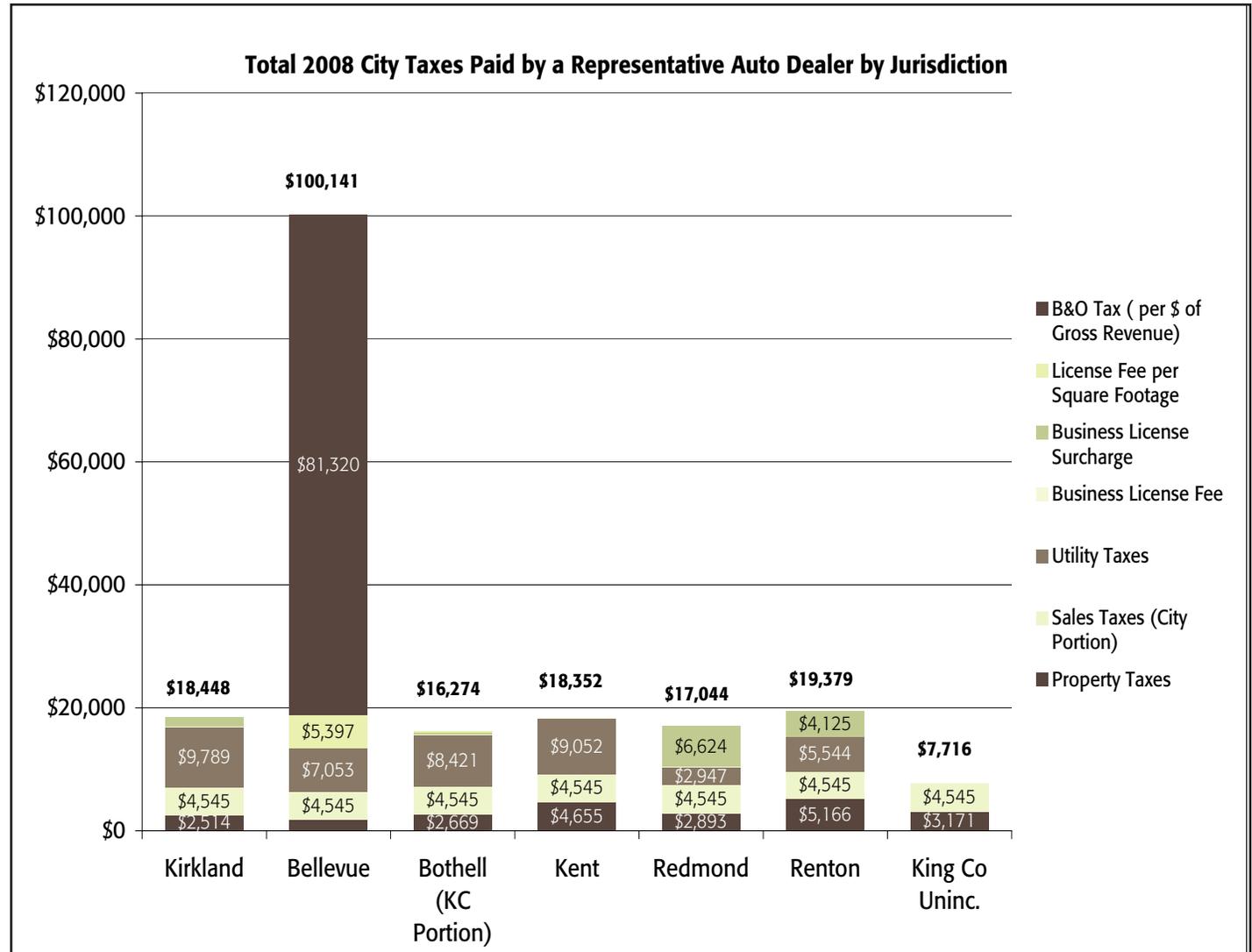


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Auto Dealer

- Bellevue's taxes on the representative auto dealer are more than five times greater than those of any other jurisdiction. In that context, all other jurisdictions (with the exception of unincorporated King County) have very similar burdens.

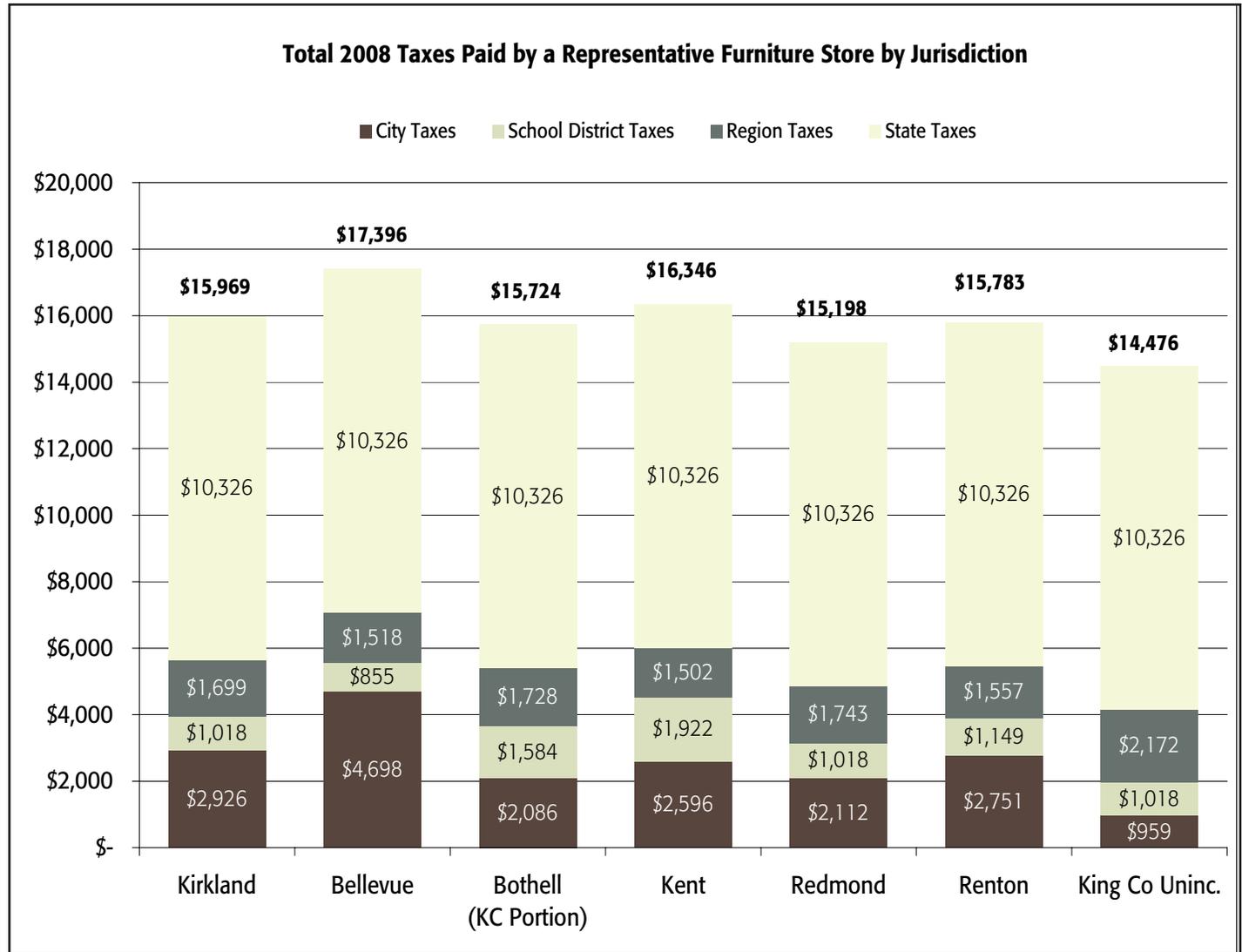


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Furniture Store

- For the representative furniture store, roughly two-thirds of its tax burden comes from state taxes, while Kirkland city taxes represent less than one-fifth of its burden.

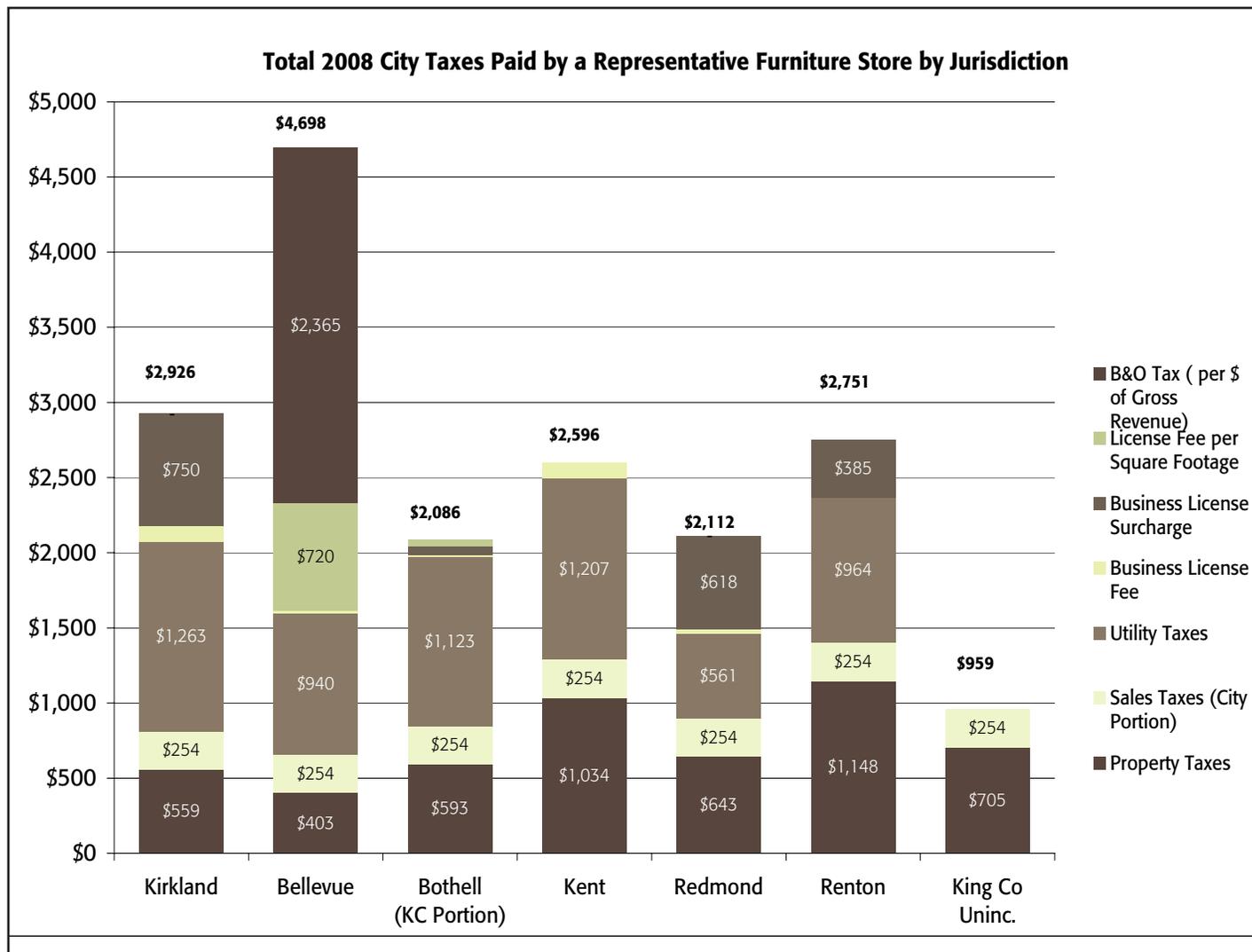


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Furniture Store

- Because the hypothetical furniture store has only 7 employees, the store owner pays more than \$120 per employee for Kirkland's business license fee and surcharge. This, combined with high utility taxes, puts Kirkland's tax burden second only to Bellevue.

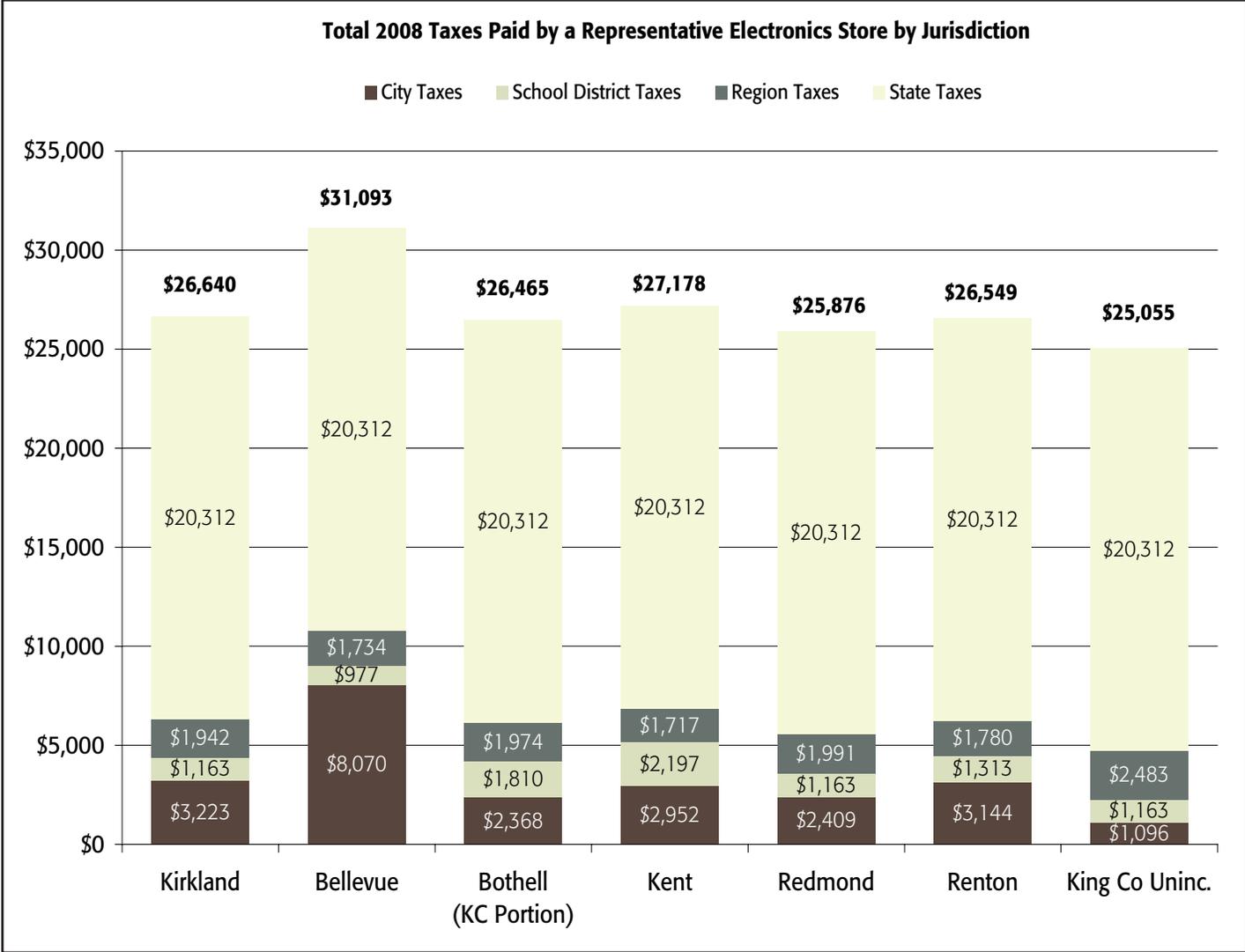


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Electronics Store

- The hypothetical small electronics store has a tax burden distribution that is very similar to the representative furniture store.

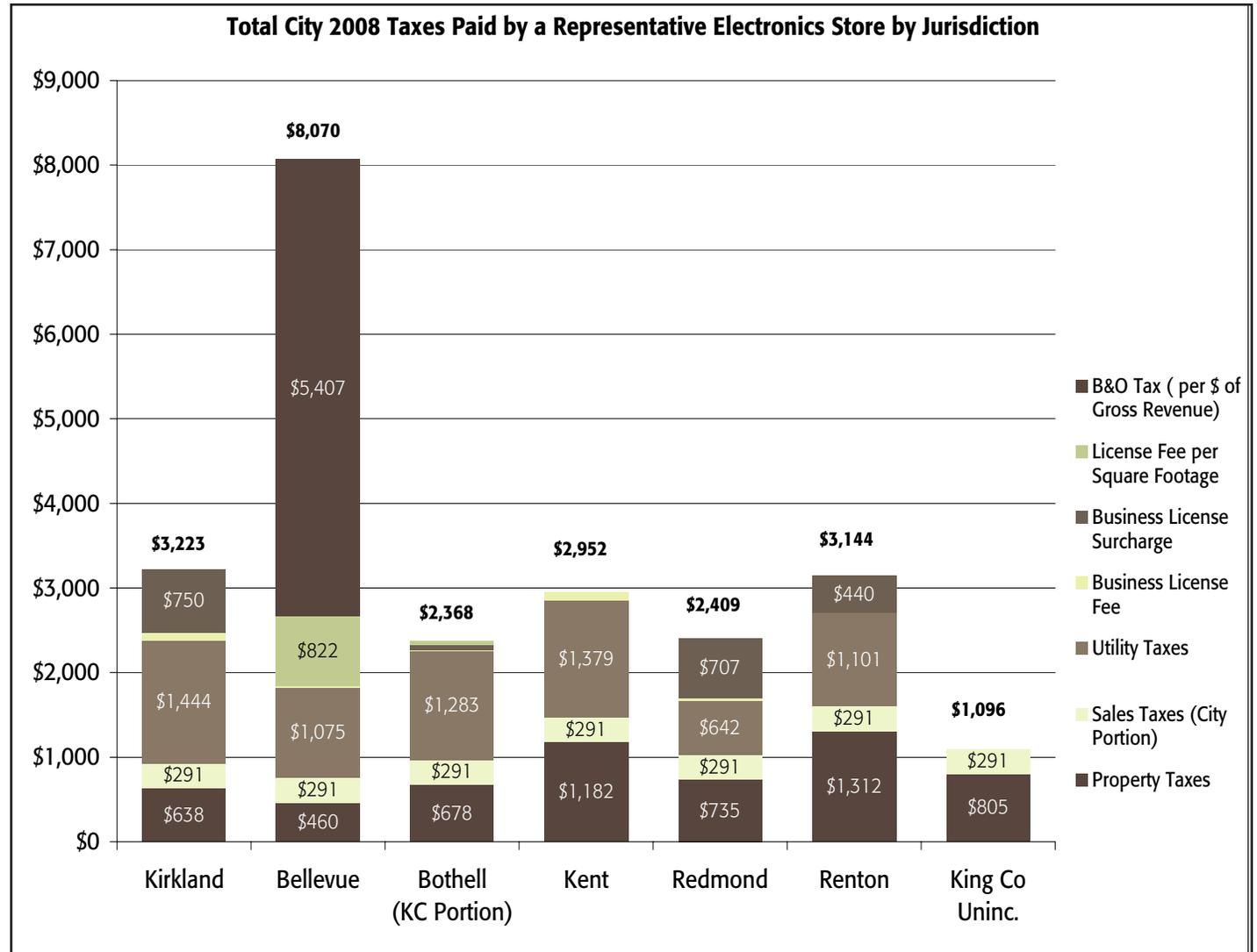


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Electronics Store

- Again, because the hypothetical small electronics store has relatively few employees, it pays more than \$120 per employee for Kirkland's business license fee and surcharge. This, combined with relatively high utility taxes, makes Kirkland's tax burden second highest. Overall, however, Bellevue's tax burden is more than twice as high, and Kirkland's tax burden is roughly in line with most of the other cities.

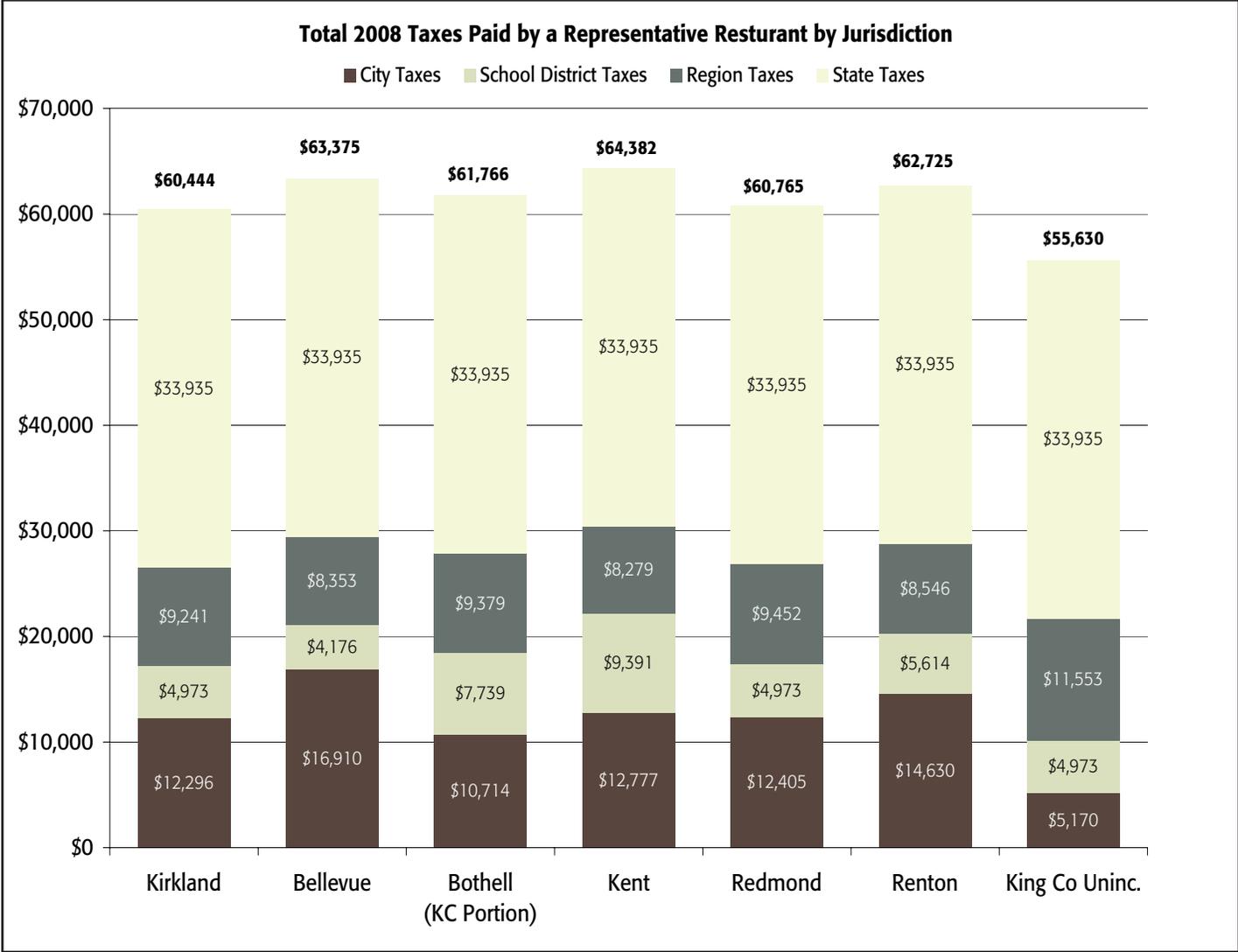


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Restaurant

- For a business like a restaurant, which in many ways acts more like a *manufacturer* of goods than a retailer, differences in total tax burdens among jurisdictions are relatively small.

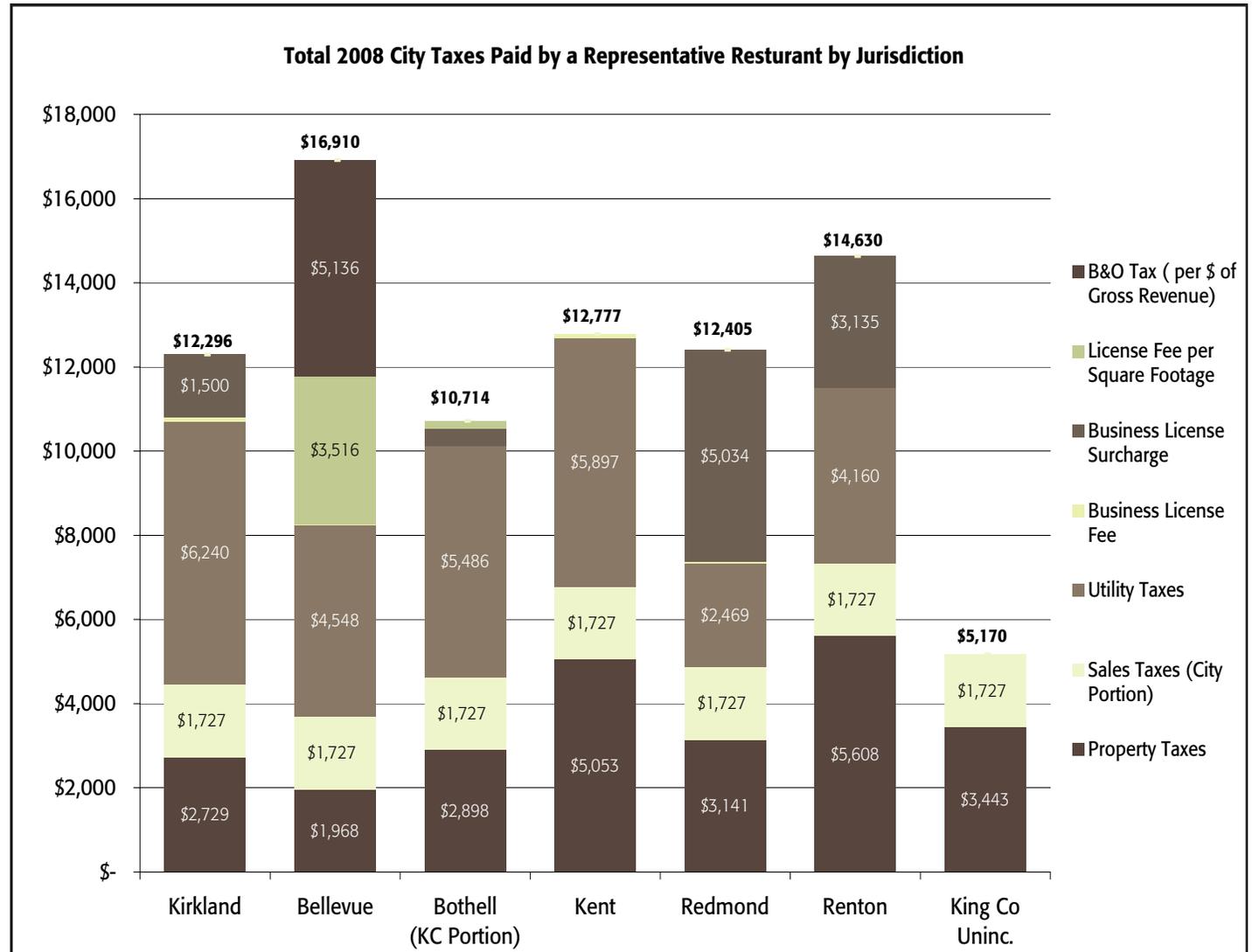


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Restaurant

- The hypothetical restaurant has 57 employees, which means that Kirkland's current business license fee structure has only a modest impact. This, in turn, means that the tax burden in Kirkland ranks lower than most cities.

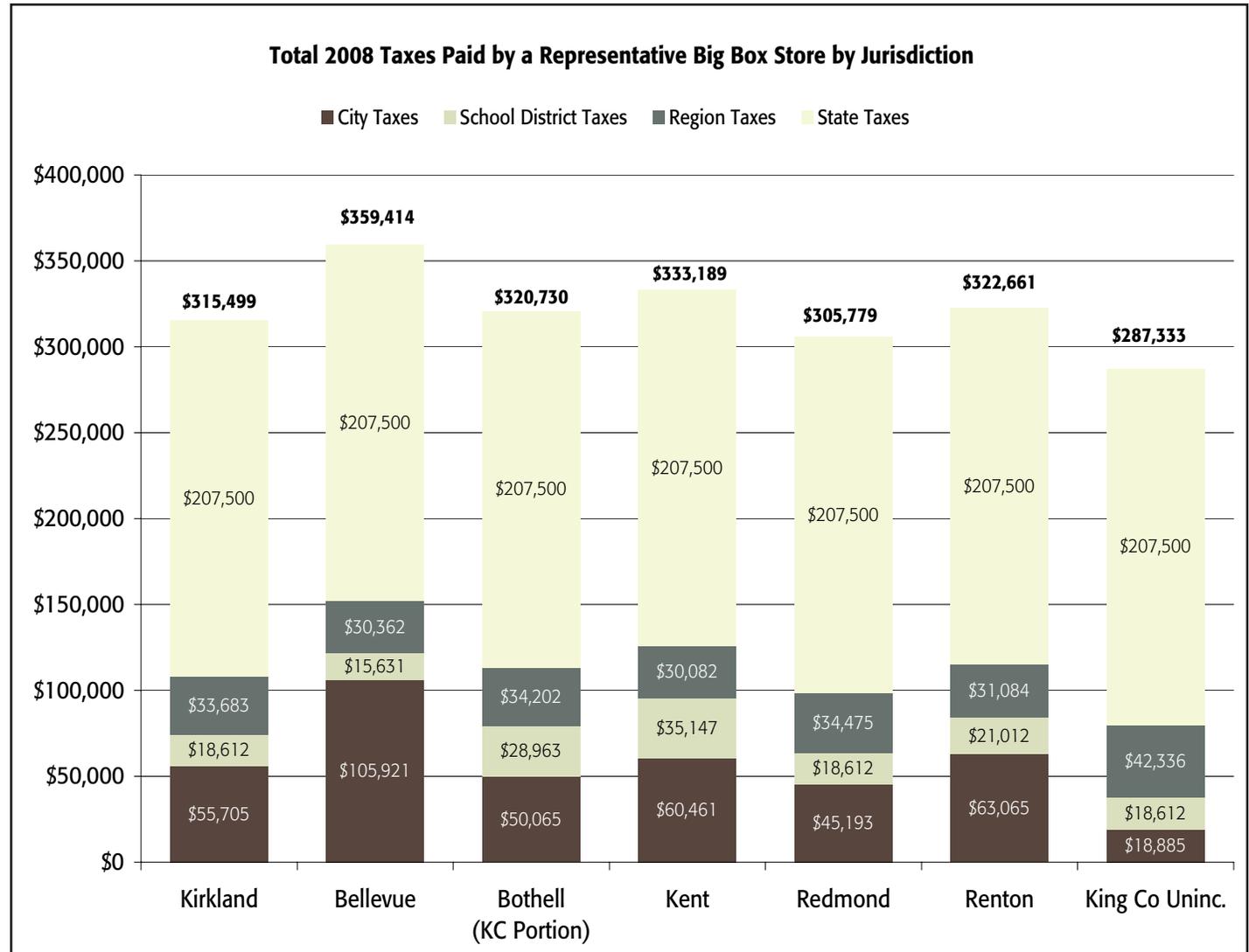


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Big Box Retail

- The hypothetical big box retailer is similar in some ways to the grocery store or auto dealer. Most of its tax burden derives from state B&O Taxes, while city taxes in all jurisdictions but Bellevue represent only a small portion of its burden.

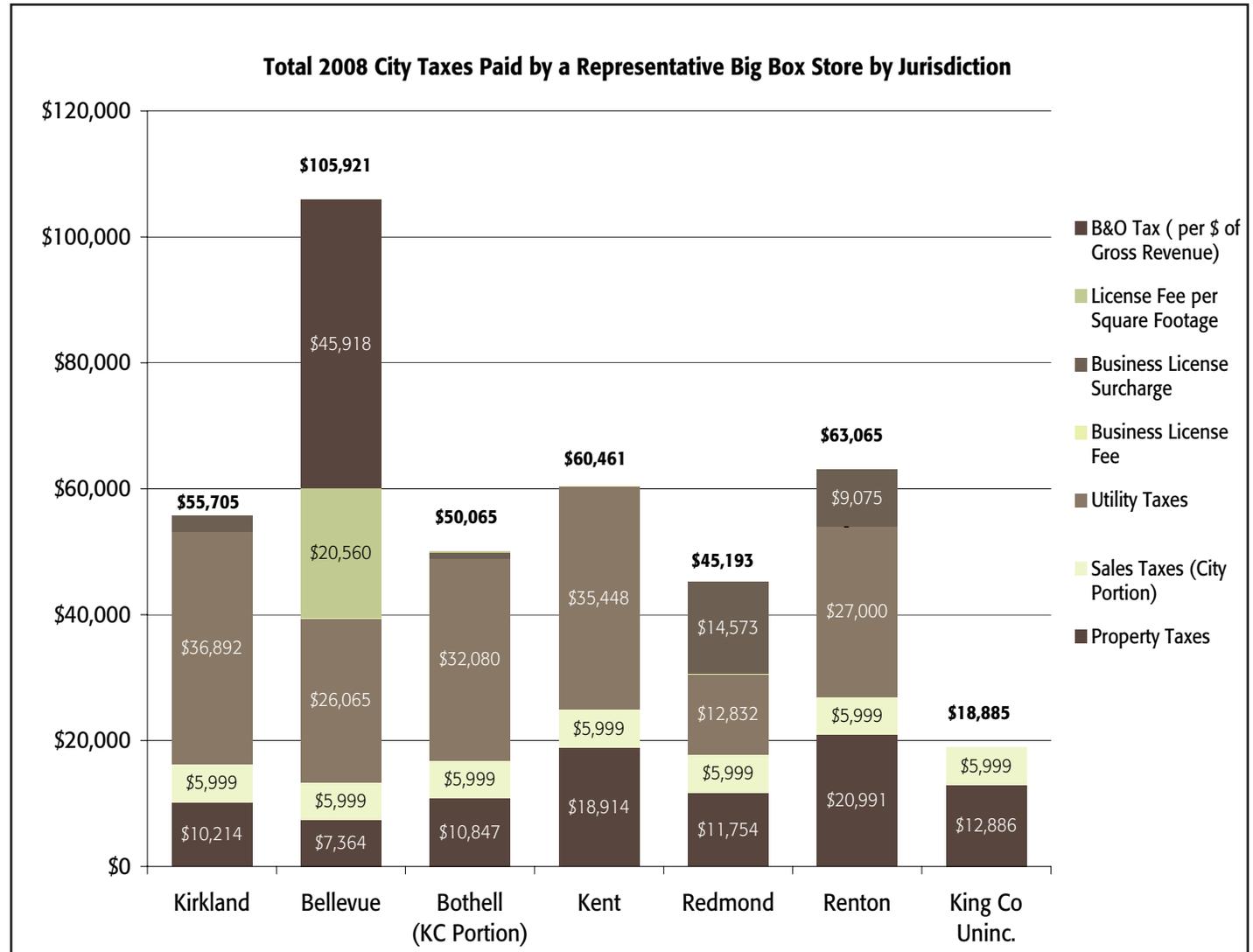


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Big Box Retail

- In the case of the hypothetical big box retailer, Kirkland's tax burden is lower than 3 cities and higher than the remaining 3 jurisdictions. In relative terms, Kirkland's business license fee and surcharge impose modest costs, but utility tax impacts (solid waste taxes in particular) cause Kirkland to rise in the rankings.

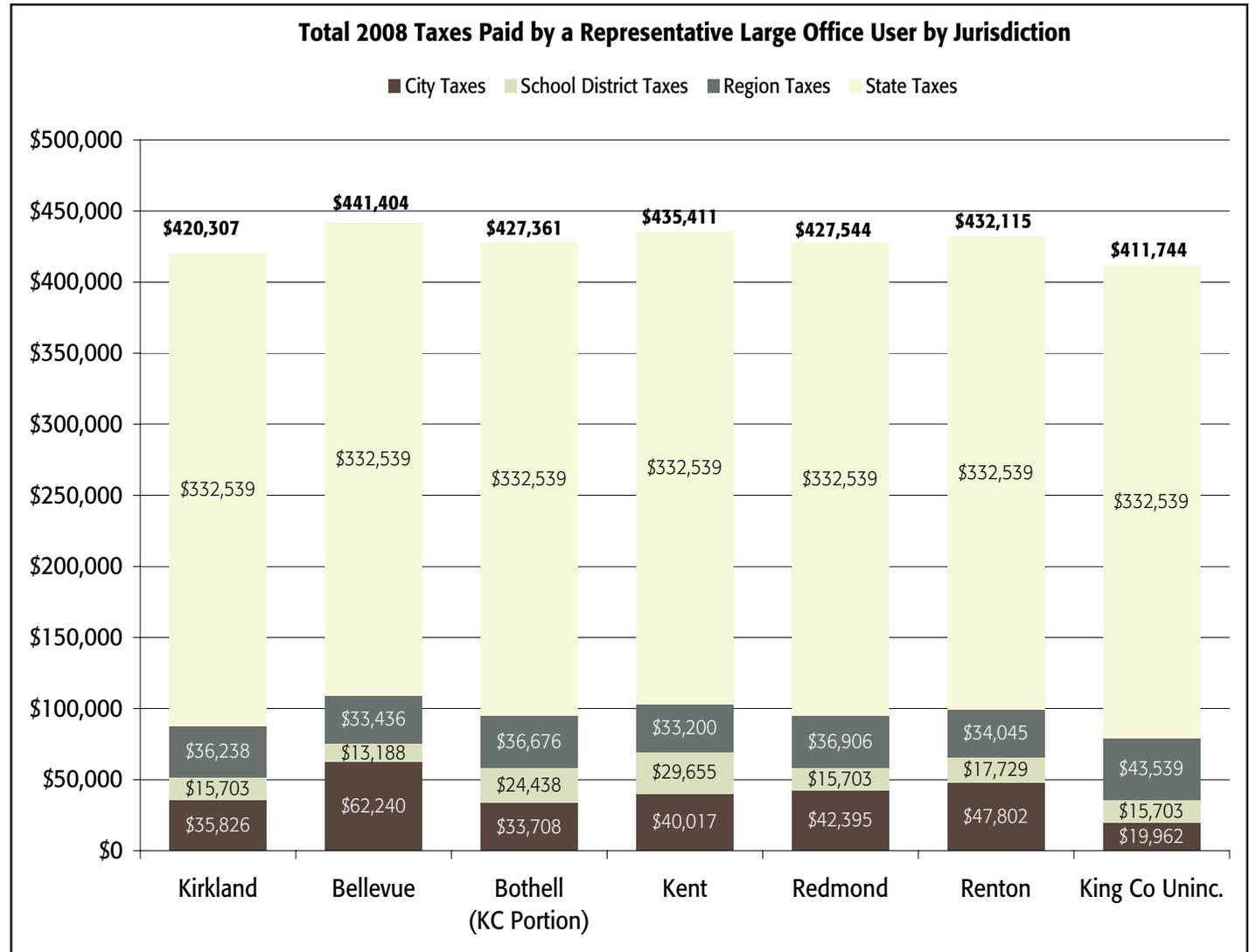


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Large Office (150 FTE)

- For the hypothetical large office user, overall tax burdens are, again, dominated by state B&O taxes.

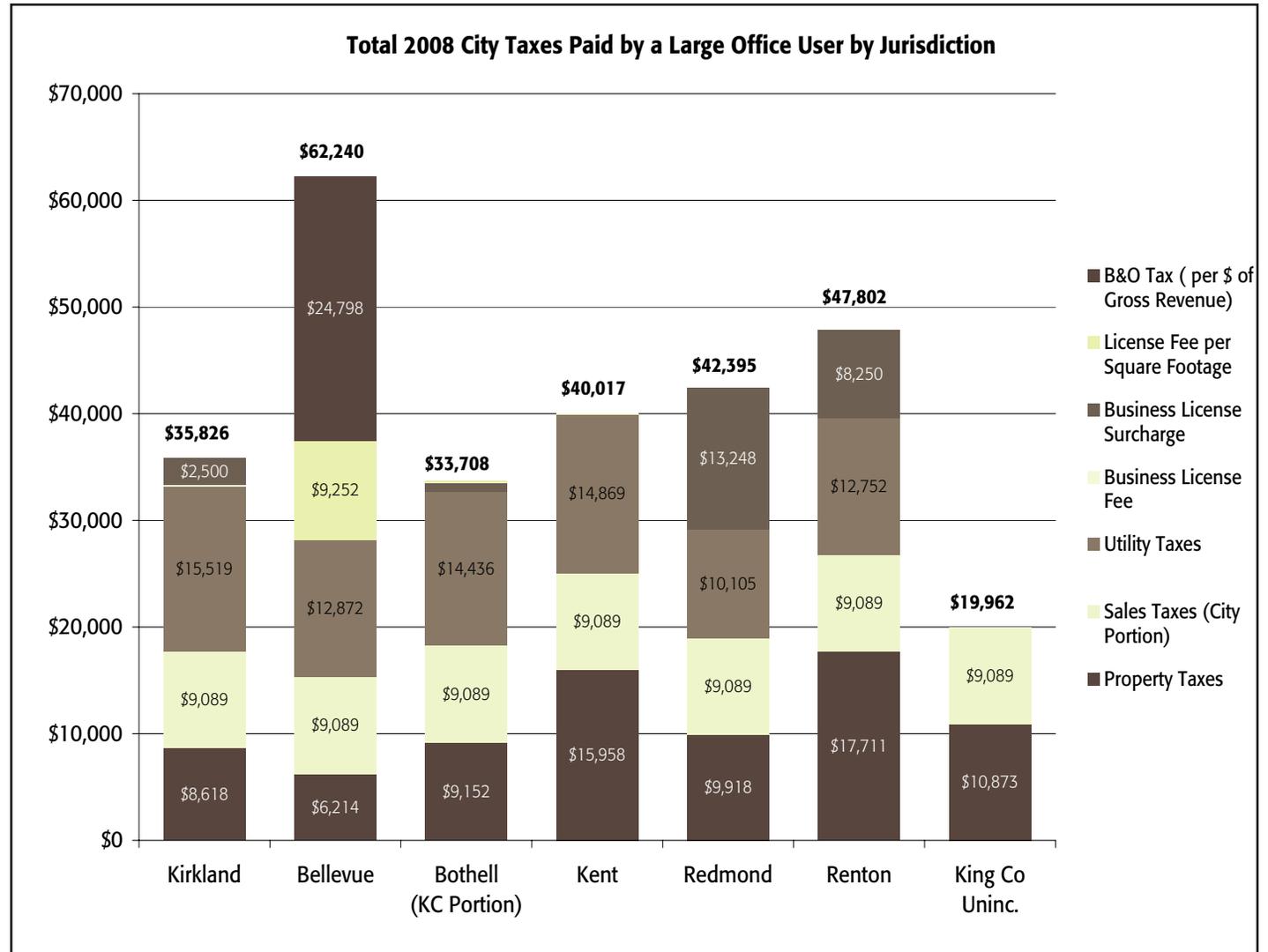


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Large Office (150 FTE)

- As the employer of the largest workforce among all of our hypothetical businesses, the large office user is most clearly benefitted by Kirkland's existing business license fee and surcharge structure, paying a bit more than \$17 per employee.

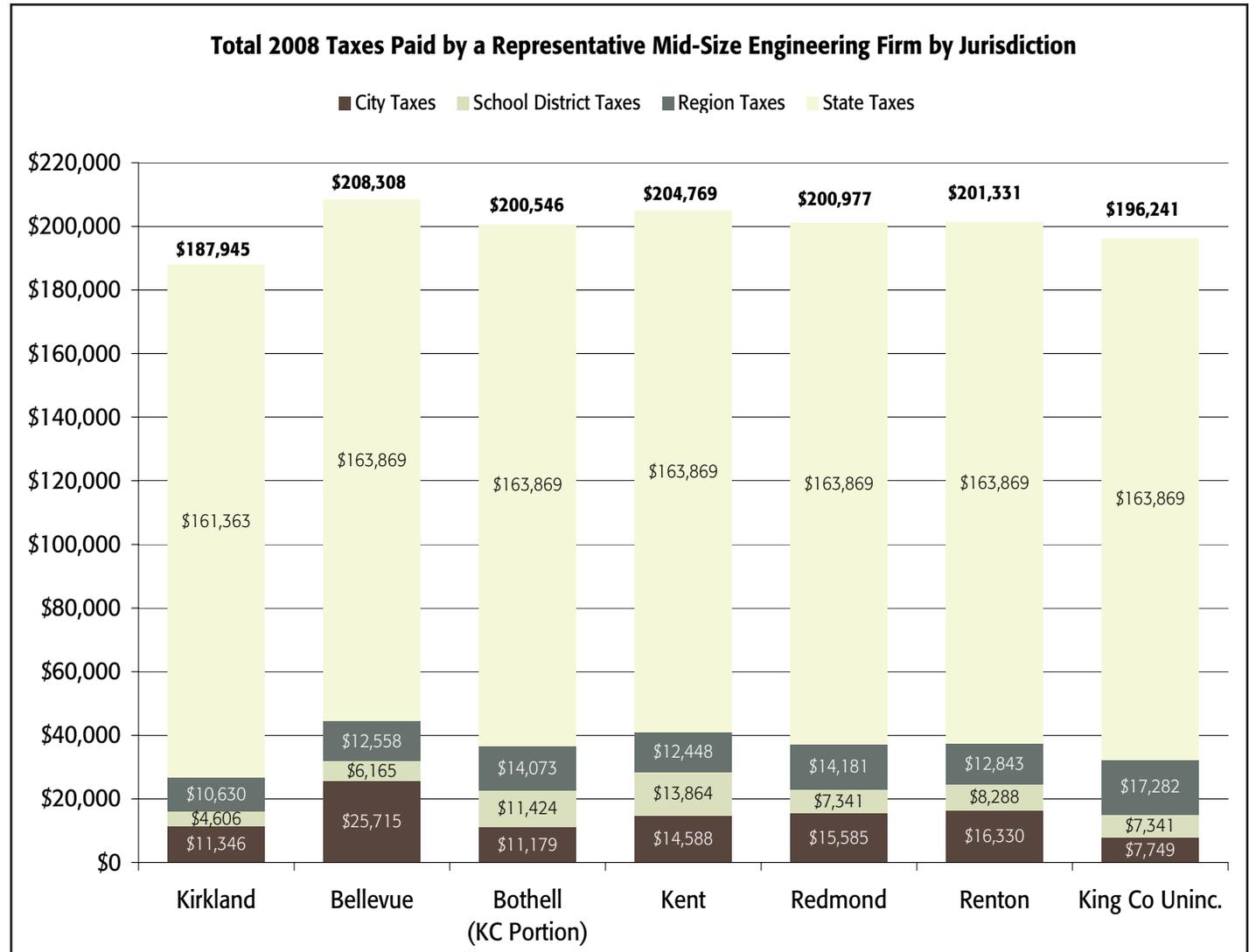


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Engineering/Medium Office (44 FTE)

- Compared with the large office user, the hypothetical engineering firm is assumed to generate more gross revenues per employee. Therefore, overall tax burdens are skewed even more towards the state B&O tax. City taxes represent only 6% of the tax burden for this business.

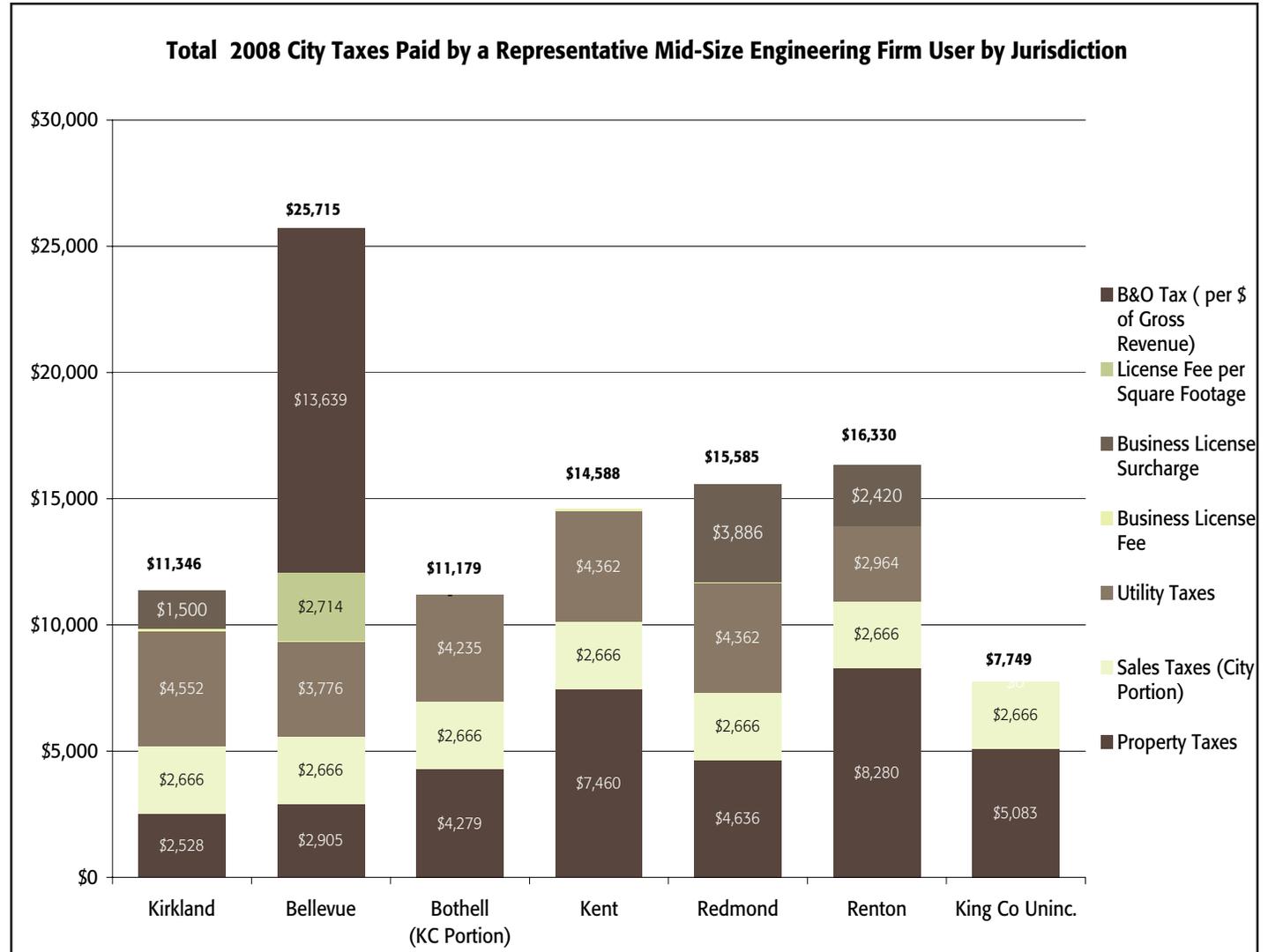


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Engineering/Medium Office (44 FTE)

- Consistent with the other large- to mid-sized businesses, the hypothetical engineering firm pays city taxes in Kirkland that are lower than most of the peer jurisdictions.

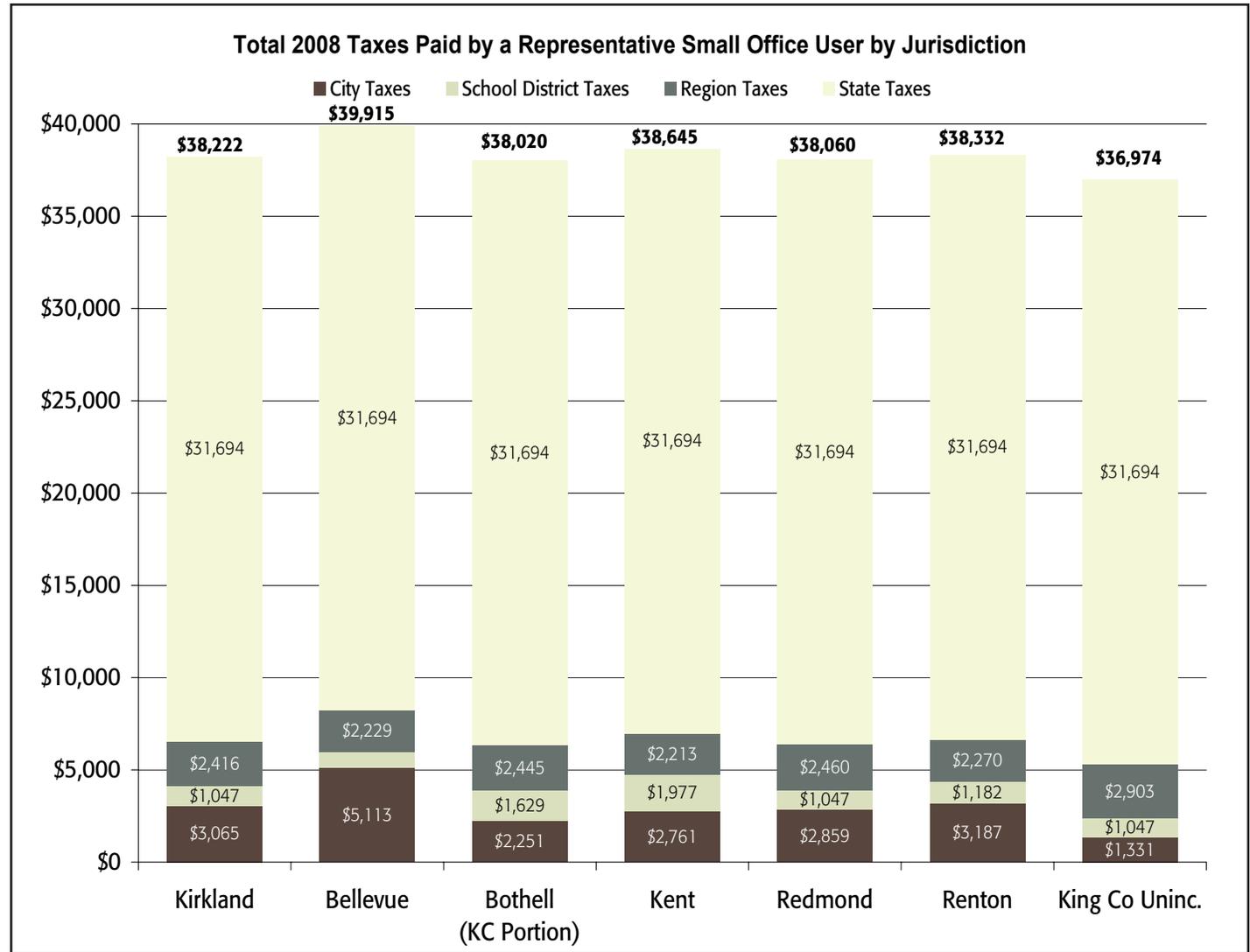


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Small Office (10 FTE)

- The hypothetical small office user also has assumed revenues-per-employee that are relatively high. Therefore, for this payer as well, state B&O taxes dominate the overall tax burden picture.

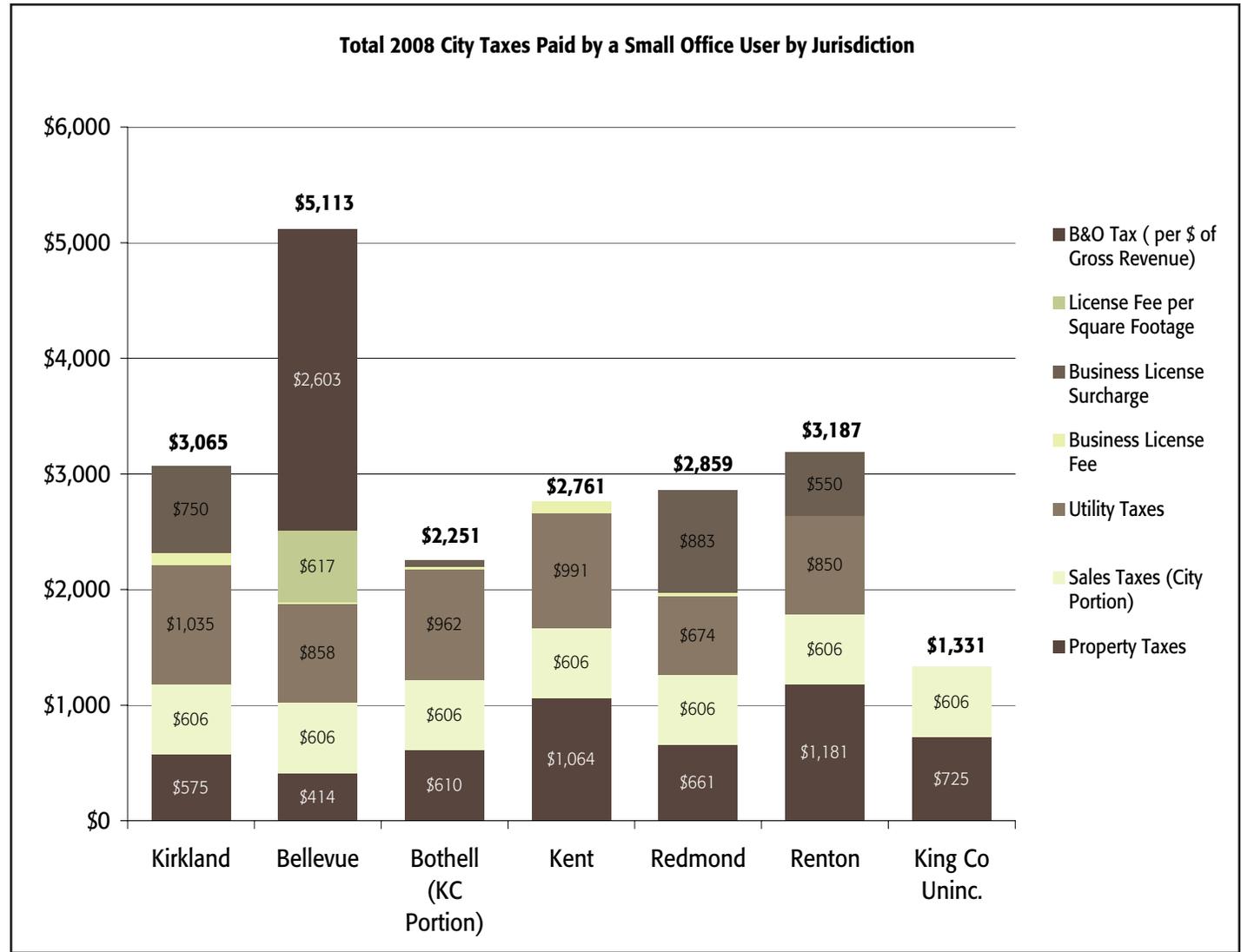


Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



Small Office (10 FTE)

- As is the case for the other small businesses, Kirkland's tax burden for the small office user ranks significantly below Bellevue. In the broad scope, however, even this business that is relatively disadvantaged by Kirkland's business license fee and surcharge has a burden in Kirkland that is similar to most of the other cities.



Source: City of Kirkland; City of Bellevue; City of Bothell, City of Kent; City of Redmond; City of Renton; King County Assessor; Berk & Associates, 2008



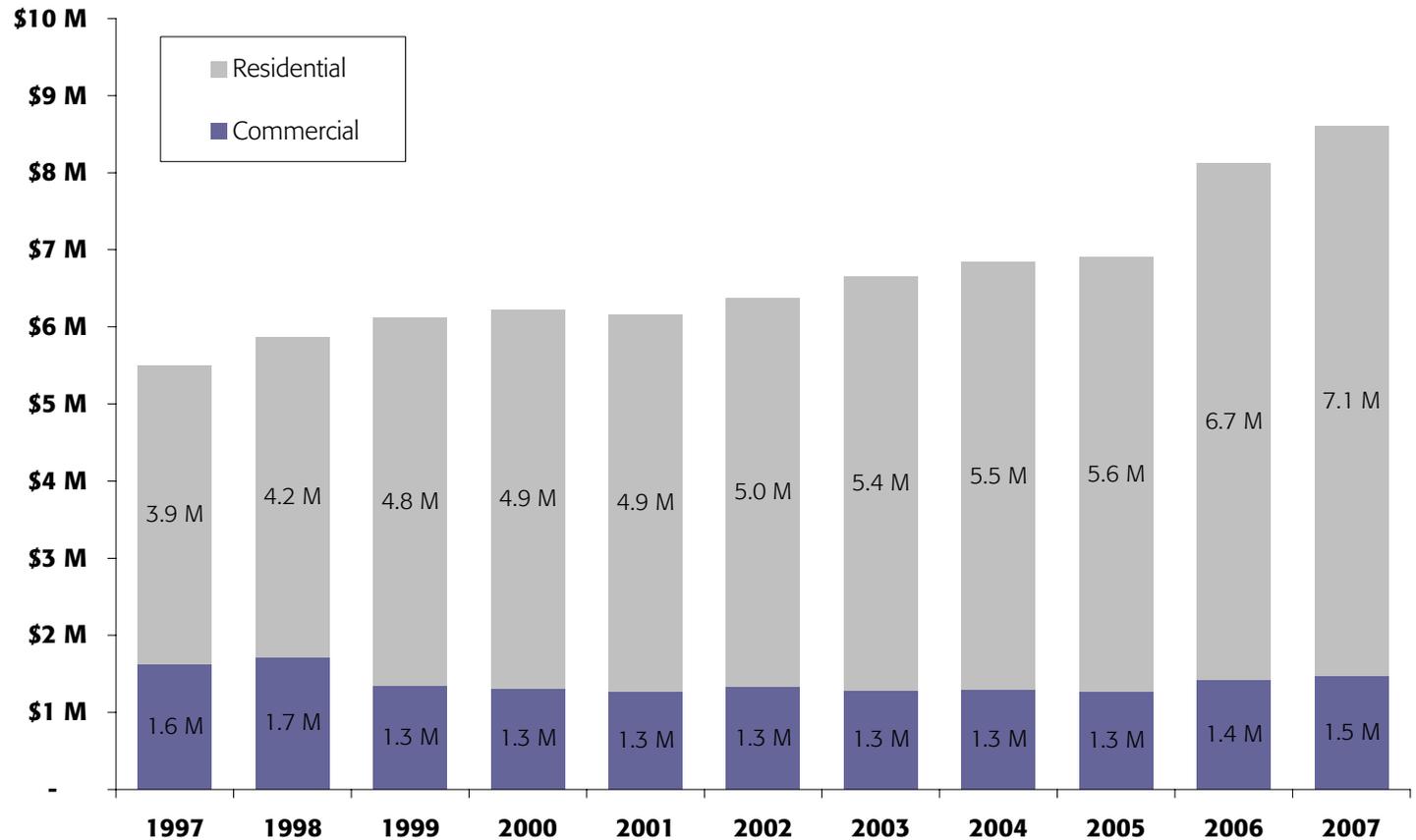
TAX CONTRIBUTION CALCULATIONS

PRESENTATION OF DETAILED ANALYTIC FINDINGS

Tax Contributions - Property Tax

- Estimates of property tax contributions reflect Berk & Associates' analyses of King County Assessors Office data extracts. Berk & Associates identified all parcels within the City of Kirkland, and based on their designation (in 2008) as commercial or residential, we calculated total assessed value for each category using historical tax value data. (While apartment buildings are coded in the Assessors data as commercial parcels, for this analysis they were included within the residential pool.)
- What the analysis shows is that most of the property value increases in Kirkland in recent years have been concentrated in residential uses. This reflects (1) underlying increases in assessed value of property and (2) investments in renovations and new construction of residential properties.
- For businesses, a combination of modest property value increases and reduced levy rates translated into limited growth in overall City property tax payments.

**General Fund - Property Tax Contributions
Not Inflation-Adjusted**



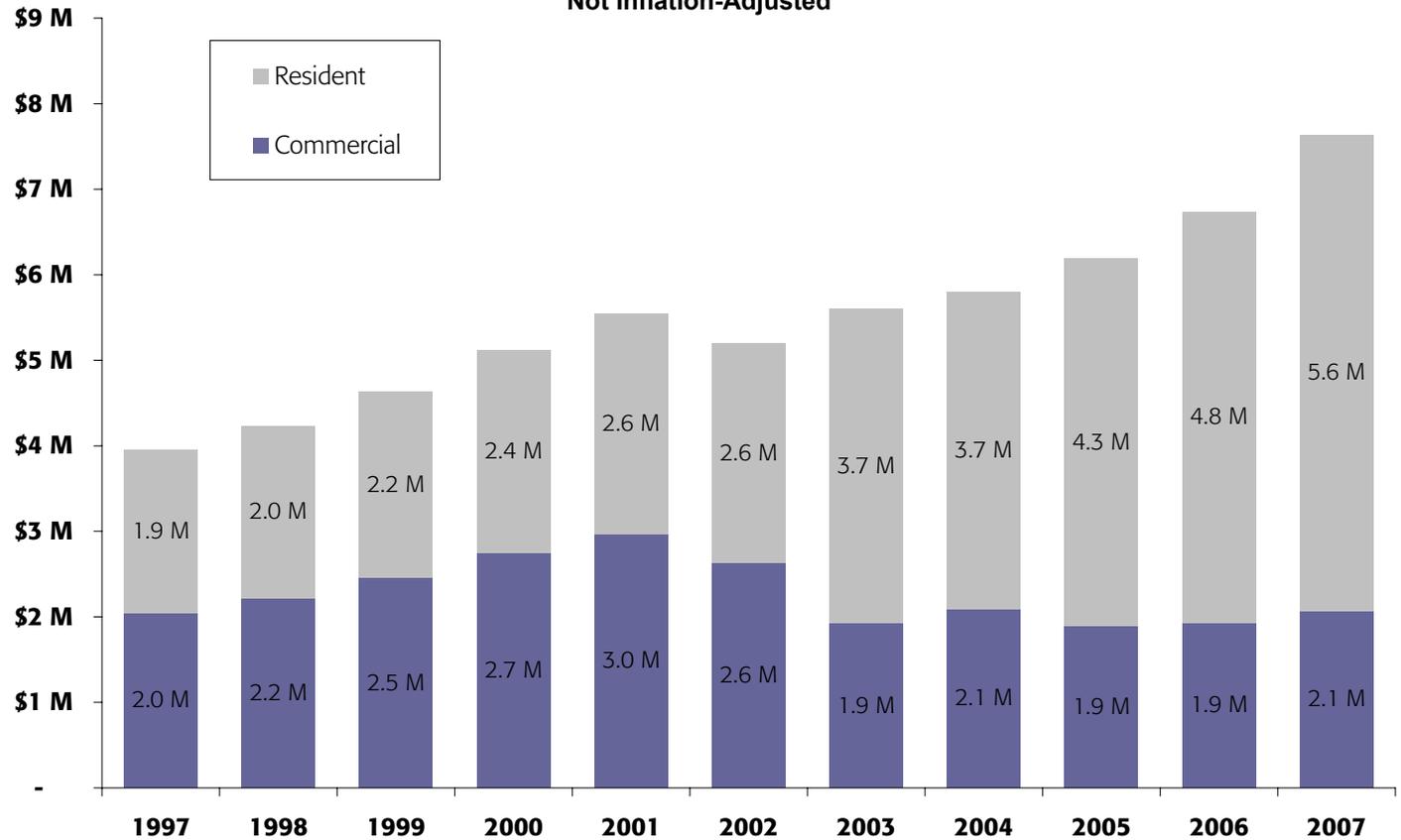
Source: King County Assessor; Berk & Associates, 2008



Tax Contributions - Private Utility Tax

- Utility tax payments from revenues generated by private utilities are based on a combination of existing City of Kirkland data and analyses, and Berk & Associate’s interpolation. Data for 2004 through 2007 reflect City of Kirkland estimates of residential versus business utility tax payments. Data for years preceding 2004 are based on Berk & Associates analysis of detailed revenue data, City population, and employment within the City.
- The rise and fall of utility tax payments by commercial payers from 1997 to 2003 reflects the rise and fall in commercial employment in the City for the same period (and reductions in the City tax rate for commercial users from 6.5% to 6%).
- It is difficult to know what factors have driven the modest gains in commercial taxes from 2003 to 2007, but they may be a result of increased availability of more cost-effective telecom options. Increases in residential taxes are likely the result of higher household telecom expenditures.

**General Fund - Contributions from Taxes on Private Utilities
(Electricity, Telephone, Gas, and Garbage Tax)
Not Inflation-Adjusted**

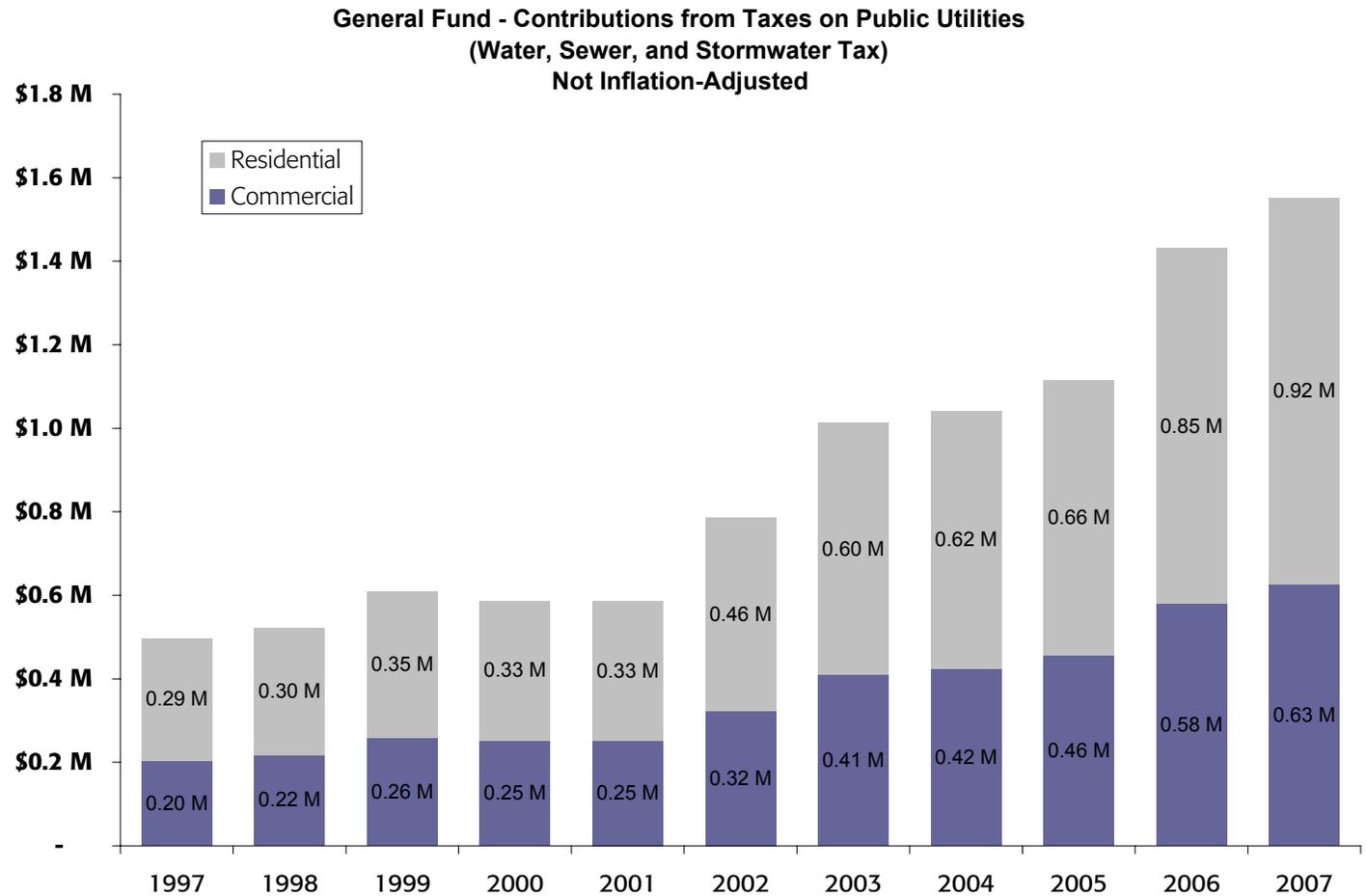


Source: City of Kirkland; Washington State Auditor’s Office; Berk & Associates, 2008



Tax Contributions - Public Utility Tax

- Virtually no detailed data are readily available from which to estimate commercial versus residential contributions for public utility tax payments. Therefore, for purposes of allocating these relatively modest streams of revenue, Berk & Associates allocated annual utility tax payments equally among residents and employees within the city. Yearly variations reflect a combination of (1) annual variations in overall revenues, and (2) annual variations in the number of city residents and employees.
- Overall growth in revenues has been driven by creation of a stormwater tax in 2002 and increases in tax rates.



Source: City of Kirkland; Washington State Auditor's Office; Berk & Associates, 2008

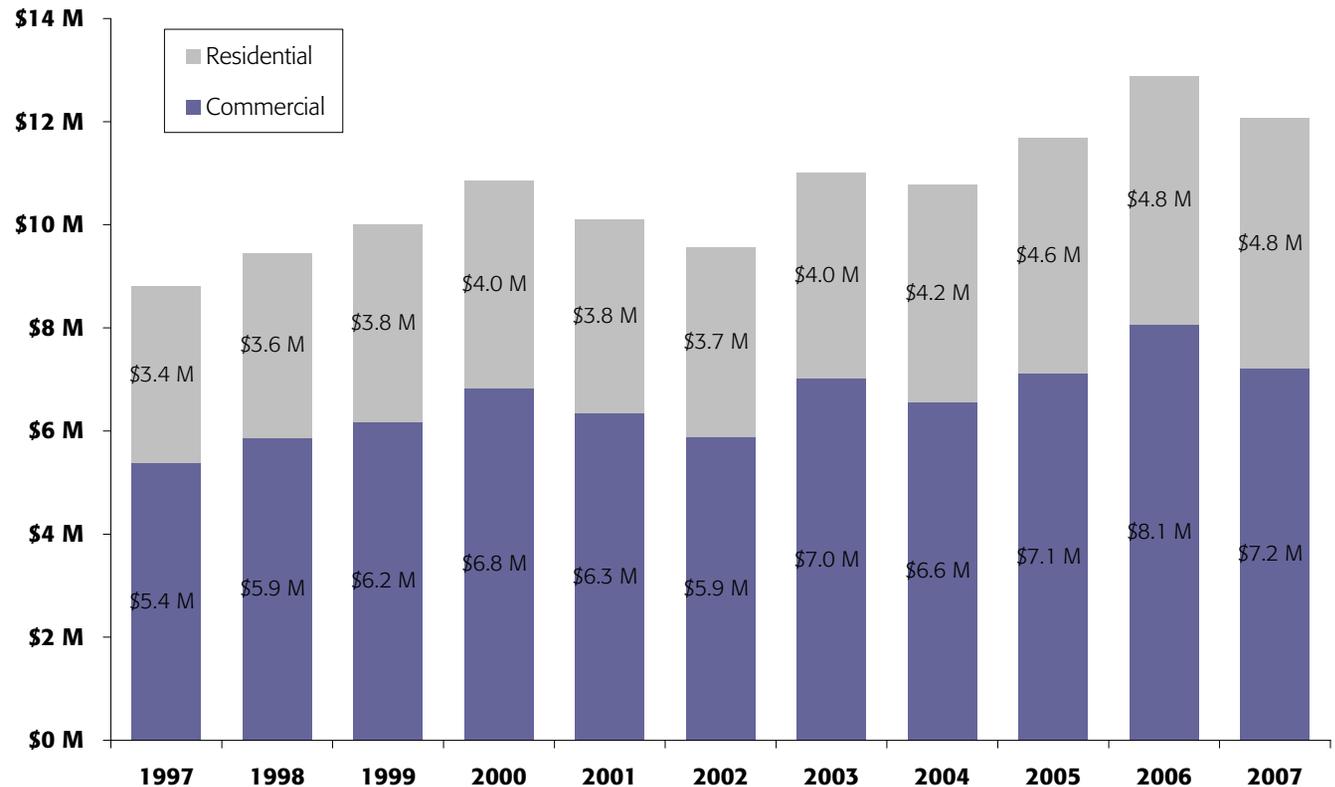


Tax Contributions - Sales Tax

- Retail sales tax contributions were allocated to households and businesses based on a framework that considers capture rates for retail expenditures. For retail sectors that capture person-expenditures that exceed the population of the City (e.g. auto dealers), the portion of the contribution that represents the *imported* sales tax revenues are credited to the commercial sector. For those sectors where person-expenditures-captured was less than City population, sales tax revenues were credited to residents. Sales tax revenues from non-retail sectors like Manufacturing; Wholesale; Real Estate, Rental, and Leasing; and Services were credited to businesses, with the exception of a \$15 per resident credit for home-based purchases of goods and services like telephone services and delivery of heating oil, etc. Finally, non-store retail purchases were credited to households.

- From 1997 to 2006, growth the commercial contribution to sales taxes outpaced growth from residents. Most of this growth in commercial contribution was driven by auto sales, which is Kirkland’s most successful retail category in terms of “imported” retail sales.

**General Fund - Sales Tax Contributions (Excluding Sales Taxes from Construction)
Not Inflation-Adjusted**



Source: City of Kirkland; Washington State Department of Revenue; Berk & Associates, 2008



Technical Appendix



Technical Appendix

STUDY METHODOLOGY

This appendix details the methodology employed to generate and examine profiles used throughout this analysis. Included in this appendix are the following:

- Construction of hypothetical households and businesses
- Tax rates schedules and methodologies used to examine tax burdens
- Comparison of Kirkland to other jurisdictions

Construction of Household and Business Profiles

Berk & Associates (Berk) created hypothetical households and businesses with characteristics that are representative of the City of Kirkland. Each of these profiles was then examined individually to identify the tax burden these hypothetical households and businesses face.

Household and Business profiles were constructed using several sources including the Office of Financial Management, United States Bureau of Labor Statistic's (BLS) *Consumer Expenditure Survey* and the State Department of Revenue (DOR). Each household profile exhibits expenditures on taxable retail sales based on BLS data. Business expenditures on taxable retail sales were estimated using gross revenue estimates and statewide business taxable retail expenditures provided DOR. Utility expenditures were based on the size of the home or business, number of persons in household, and the number of employees employed by a business.

As assessed value is a driver in tax revenue, annual changes in assessed values were given particular attention. Annual changes in assessed values for hypothetical taxpayers represent citywide, compound annual growth rate for six different land-use categories in Kirkland: single-family residential, condominiums, multi-family residential (rental), auto-dealerships, retail commercial, and office commercial.

Change in Assessed Value

Berk used the King County Assessor's Real Property Accounts database extract to calculate assessed value change over time. Berk selected all parcels in Kirkland with records for 1996 through 2008 from the Real Property Accounts database. This was done to have a consistent number of parcels for each year in which to measure changes in assessed value. Berk then linked building year-built data from the assessor's commercial building extract and residential building extract to the dataset, and subtracted all parcels with buildings constructed in 1995 or after. We also subtracted any parcels with an increase in assessed value over 150 percent in one year. This was done to eliminate any large increases in assessed value due to new construction or unusual assessment revaluations, which

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would skew the dataset. Finally, we calculated the percent growth per year and the compound annual growth rate from 1996-2000 and 2001-2008 in assessed value for each one of the land-uses categories above.

Tax Rate Schedules

Sources for all property tax rates were either the King County Assessor's annual report or the Assessor's annual codes and levies book for taxing districts. Individual 2008 city budgets and city codes were the source of business tax rates and fees for each city. **Exhibit 1** depicts the tax or fee and the rates used by each comparative city.

Business license fees for most of the cities are flat rates, with the exception of Bothell. Employee "head" taxes are determined in a variety of ways for each city. The City of Kirkland has a graduated scale for the employee tax depending how many employees a business has, where as the City of Redmond charges a rate based on the number of hours an employee works per year.

Exhibit 1 2008 Business Taxes and Fees

	Kirkland	Bellevue	Bothell	Kent	Redmond	Renton	Unincorp. KC (Finn Hill)
Annual Business License Fee	\$100	\$15	See Attached	\$100	\$35		-
Business License Surcharge	\$125*		See Attached	-	\$0.046**		-
Employee "Head" Tax	-		See Attached	-		\$55	-
B&O Tax (per \$ of gross revenue)	-	0.15%	See Attached	-		-	-
License Fee per SF		\$0.21					-

Source: City of Kirkland, City of Bellevue, City of Bothell, City of Kent, City of Redmond, City of Renton, King County.

Notes: * Kirkland's Business License Surcharge is on a sliding scale with a minimum payment of \$125; for 2 or more employees the fee is \$225, 6 or more employees \$750, and 21 or more \$1500.

**Redmond's Business License Surcharge is calculated per employee hour.

The City of Bothell has a unique method for determining business license fees. The City bases business license fees on a combination of three categories: the number of employees, the type of business, and the size of the business. There is also a Special Classification Fees for certain types of businesses. **Exhibit 2** below lists the specific fees and their rates for the City of Bothell.

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Exhibit 2 City of Bothell Business License Fee Schedule

City of Bothell 2008 Business License Fee Schedule

License Year: July 1 – June 30
Contractors Please Note: In-City: Pay the appropriate fees from Categories A, B, and C.
Out-of-City: Pay fees from Category A only.
Non-Profit Organizations: No fees required for Non-profit Organizations. Registration is required.
Special Endorsements: Additional application and fees required. Please see details below.

Locate the Appropriate Fees From Each of the Following Categories and Enter on Application Form

CATEGORY A – Number of Employees				
	Number of Employees	License Fee	Number of Employees	License Fee
*Business owner counts as one employee.	1-2	\$21.00	51-75	\$416.00
•Contractors pay according to the number of employees on the job.	3-10	\$59.00	76-100	\$556.00
	11-25	\$127.00	101+	\$556.00 + \$5.00 for each employee over 100
	26-50	\$276.00		

CATEGORY B – Type of Business			
Code	Business Type	Description	Fee
100	Public Assembly	Public recreation, funeral homes, clubs, restaurants, food service, and theater.	\$28.00
150	Non-Profit Organization	An enterprise, without private profit for a public, charitable, educational, literary, or fraternal purpose, when its not-for-profit status is demonstrated through Internal Revenue Service Documentation.	No fees, registration required
200	Educational Use	Various types of training schools.	\$28.00
300	Institutional Use	Health care facilities of various types. Adult daycare centers and adult family homes.	\$28.00
400	Residential	Business where primary use is residential. Includes hotels, motels, and lodging houses. For home offices, see "Store, Office" below.	\$21.00
401	Apartments	All apartments are included.	\$115.00
500	Store, Office	Business involved in the sale, service, or maintenance of products.	\$14.00
501	Contractors – in-City	Contractors who maintain a home office within the City limits, but do not have employees working at that home office location.	\$14.00
502	Contractors – out-of-City	Contractors whose offices are outside city limits.	\$14.00
503	Gross Proceeds Less Than \$1,000 Per Month	Business whose gross monthly proceeds are less than \$1,000.	No fees, registration required
506	Home Occupation Business	Home-based business where the primary use of the dwelling is residential. Maximum of 2 workers, one of whom must reside in that home.	\$14.00
507	Family Daycare Home	State-licensed daycare provider who regularly provides daycare for not more than 12 children in the provider's home in the family living quarters.	Subject to \$14.00 fee from Category B only.
600	Basic Industry, Utility	Research/laboratory, military/defense, communications.	\$36.00
700	Manufacturing Use	Manufacturing/assemblying of goods.	\$36.00
800	Storage Use	All types, except hazardous waste.	\$28.00

CATEGORY C – Square Footage			
Square Footage	License Fee	Square Footage	License Fee
Less than 3,000	\$0	15,001 to 17,000	\$155.00
3,001 to 5,000	\$43.00	17,001 to 20,000	\$175.00
5,001 to 10,000	\$71.00	20,001 to 50,000	\$211.00
10,001 to 15,000	\$113.00	Greater than 50,000	\$245.00

Special Classification Fees			
505	Peddler	Persons who travel door-to-door, or street-to-street, selling their wares. Includes ice cream vendors	\$71.00 initial fee \$14.00 annual renewal fee \$13.00 annual investigation fee
508	Amusement Game Device	Amusement game device located within a store, office, public assembly business, etc.	\$37.00 per game device
509	Secondhand Dealer	Resale of used goods.	\$37.00
510	Public/Teen Dance	Any dance that is open to the public and which is conducted for a profit, either direct or indirect, or that requires a monetary payment or contribution from the persons admitted.	\$423.00
511	Pawnbroker	Receives goods, wares, or merchandise for repayment of security of any money loaned; or loans money on deposit of personal property; or publicly displays sign indicating money to loan on personal property on deposits or pledge.	\$141.00

Other Fees	
Change of Business Location	\$21.00
Change of Business Owner	\$21.00
Duplicate License	\$2.00

For assistance or more information, contact Community Development at (425) 486-8152

Source: City of Bothell

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Exhibit 3 details the King County levy schedule used to calculate Kirkland property taxes.

Exhibit 3 City of Kirkland Levy Rates

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
City Total	2.41913	2.26151	2.15966	1.94718	1.84205	1.64180	1.43680	1.58850	1.55339	1.49085	1.49002	1.40116	1.27678
City Levy (Regular)				1.65779	1.59211	1.42558	1.30384	1.26923	1.35008	1.30528	1.32360	1.25175	1.14882
City Levy (Bond/Special)				0.28939	0.24994	0.21622	0.13296	0.22500	0.20331	0.18557	0.16642	0.14941	0.12796
City Levy (Voted)				-	-	-	-	0.09427	-	-	-	-	-
Road District (KC Onl)	-	-	-	-	-	-	-						
Consolidated Levy	6.00120	5.93933	5.62713	5.37155	5.20814	4.88749	4.62851	4.50523	4.44226	4.32501	4.05986	3.84649	3.56362
State School Fund	3.50000	3.52	3.51000	3.35872	3.30278	3.14502	2.98946	2.89680	2.75678	2.68951	2.49787	2.32535	2.13233
County				1.77385	1.68951	1.55218	1.44949	1.34948	1.43146	1.38229	1.32869	1.28956	1.20770
Port				0.23898	0.21585	0.19029	0.18956	0.25895	0.25402	0.25321	0.23330	0.23158	0.22359
Emergency Medical S	0.24987	0.25000	-	0.29000	0.27299	0.25624	0.25000	0.24143	0.23717	0.23182	0.21982	0.20621	0.30000
School Levy	3.98259	3.95077	3.52386	4.05682	4.01758	3.52918	3.17544	3.06974	2.96344	2.82925	2.64967	2.57101	2.32644
Water Levy	-	-	-	-	-	-	-	-	-	-	-	-	-
Fire Levy	-	-	-	-	-	-	-	-	-	-	-	-	-
Hospital Levy	0.44640	0.44360	0.43418	0.41416	0.40685	0.38784	0.35975	0.34082	0.34227	0.58794	0.53517	0.50320	0.45010
Library Levy	0.50000	0.50000	0.50000	0.50000	0.50000	0.48270	0.45652	-	0.49246	0.48288	0.48937	0.50027	0.41836
Flood Levy	-	-	-	-	-	-	-	-	-	-	-	-	0.10000
Ferry Levy	-	-	-	-	-	-	-	-	-	-	-	-	0.05500
Other Levy	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Levy	13.59919	13.34521	12.24483	12.57971	12.24761	11.18525	10.30682	9.74572	10.03099	9.94775	9.44391	9.02834	8.49030

Source: King County, 2008.

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Comparing Kirkland to Other Jurisdictions

While understanding how Kirkland's tax burden has changed since the original study was commissioned it is also important to understand how Kirkland's tax burden compares to other regional cities. To compare the Kirkland household and business profiles we calculated the tax burden these profiles would pay if they were placed in the following Jurisdictions. **Exhibit 4** details the levy rate schedule used to calculate the jurisdictional tax burden comparisons.

Exhibit 4 Jurisdictional Levy Rates

2008 LEVY RATES (KC Rate Book Report)							
	Kirkland	Bellevue	Bothell	Kent	Redmond	Renton	Unincorp. KC (Finn Hill)
City Total	1.27678	0.92056	1.35586	2.36421	1.46929	2.62382	1.61081
City Levy (Regular)	1.14882	0.92056	1.23508	2.31188	1.44559	2.57052	-
City Levy (Bond/Special)	0.12796	-	0.12078	0.05233	0.02370	0.05330	-
Road District (KC Only)	-	-	-	-	-	-	1.61081
Consolidated Levy	3.56362						
State School Fund	2.13233	2.13233	2.13233	2.13233	2.13233	2.13233	2.13233
County	1.20770	1.20770	1.20770	1.20770	1.20770	1.20770	1.20770
Port	0.22359	0.22359	0.22359	0.22359	0.22359	0.22359	0.22359
Emergency Medical Services	0.30000	0.30000	0.30000	0.30000	0.30000	0.30000	0.30000
School Levy	2.32644	1.95382	3.62038	4.39336	2.32644	2.62654	2.32644
Water Levy	-	-	-	-	-	-	-
Fire Levy	-	-	-	-	0.01912	-	0.99275
Hospital Levy	0.45010	-	0.45010	-	0.45010	0.50854	0.45010
Library Levy	0.41836	0.45336	0.45336	0.41836	0.45336	0.03500	0.45336
Flood Levy	0.10000	0.10000	0.10000	0.10000	0.10000	0.10000	0.10000
Ferry Levy	0.05500	0.05500	0.05500	0.05500	0.05500	0.05500	0.05500
Other Levy	-	-	0.02983	-	0.04485	-	0.05387
Regional Total Levy	2.75475	2.33965	2.81958	2.30465	2.85372	2.42983	3.83637

Source: King County, 2008.