



**CITY OF KIRKLAND**  
**Department of Finance & Administration**  
**123 Fifth Avenue, Kirkland, WA 98033 425.587.3100**  
**www.kirklandwa.gov**

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**MEMORANDUM**

**To:** Kurt Triplett, City Manager

**From:** Michael Olson, Director of Finance and Administration  
Tom Mikesell, Financial Planning Manager

**Date:** August 26, 2016

**Subject:** **FINAL 2016 PROPERTY TAX LEVY**

**RECOMMENDATION:**

Council approves the attached ordinance, which repeals and replaces Ordinance 4500 approved on November 17, 2015 and establishes the final regular and excess property tax levy for the City of Kirkland for the 2016 fiscal year. The final property tax information was received from the King County Assessor's Office at the end of January. The levy Council adopted on November 17, 2015 provides for rates that accommodate the maximum allowable levy amount provided in statute, however, to memorialize the final levy and rate, staff has prepared a replacement ordinance.

There is also a separate levy associated with Fire District 41 debt, which was adopted by Ordinance 4501 on November 17, 2015. That levy is unchanged and so Ordinance 4501 does not need replacement.

**BACKGROUND DISCUSSION:**

The attached ordinance reflects the final property tax levy data received from King County on January 22, 2016. This ordinance replaces the interim ordinance that was approved on November 17, 2015 in order to meet the County's deadline for 2016 levy information. As noted in the preliminary 2016 property tax levy memo, the initial levy was set intentionally high to ensure that the City would capture any additional new construction and state assessed valuation that was not recorded at the time of the preliminary levy.

The property tax levy needs to be established annually even though the Council adopted a budget for both years in the 2015-2016 biennium. Accordingly, the attached ordinance relates to 2016 only.

The following discussion explains how the final levy numbers were calculated for each of the variable factors in the City's levy.

**1. REGULAR AND EXCESS LEVY FOR THE CITY OF KIRKLAND:**

There are two components to the City's property tax levy – the regular levy, which funds operating costs, and the excess levy, which funds debt service on voter-approved bonds (which does not apply in the areas annexed in 2011).

*Regular Levy for City*

For 2016, there are two factors impacting the amount of the regular levy – the new construction levy and the optional increase.

### New Construction

New construction represents additional property taxes to be received from the construction of new buildings and additions to existing structures. The new construction levy increases revenue to the City but does not increase the tax levy on existing taxpayers. The new construction levy is calculated by dividing the new construction valuation by \$1,000 and multiplying the result by the current year's regular levy tax rate<sup>1</sup> (\$1.45895 per \$1,000 of assessed valuation). The final new construction valuation for the 2016 levy is \$281,979,305 which translates into a new construction levy of \$411,394 ( $\$281,979,304 / \$1,000 \times \$1.45895$ ). Over the past several years, the increase in new construction levy as a percentage of each year's total base regular levy has ranged between 0.34 percent and 4 percent. The estimated 2016 new construction levy of \$411,394 is 1.49 percent of the total base regular levy for 2016.

### Optional Levy Increase

The 2015-2016 Budget assumes the optional increase of one percent in 2016, so the 2016 final levy includes the one percent increase. Each one percent increase in the regular levy equates to about \$203,377 in new revenue to the General Fund; \$12,498 in new revenue to the Parks Maintenance Fund; \$29,657 in new revenue to the 2012 Street Levy Fund; and, \$23,261 in new revenue to the 2012 Parks Levy Fund for a total of about \$268,793.

### *Excess Levy for City*

The total excess levy for the City, which relates to voted debt, is increasing from \$569,990 in 2015 to \$574,065 in 2016 based on the payment schedule for the outstanding voted debt. Annexation voters did not approve the assumption of voted bond indebtedness, therefore the excess levy will only be applied on the taxable assessed value of properties within the pre-annexation boundaries of the City. This translates to a rate of \$0.04004 per \$1,000 assessed value.

### *Trends in Assessed Valuation*

Assessed valuation is composed of new construction and revaluation of existing properties. Final figures from King County dated January 22, 2016, indicate that compared to 2015, total assessed valuation increased by 9.75 percent (\$1,799,844,596). Of the total increase, 8.23 percent was from revaluations of existing properties (\$19,971,453,255) and 1.52 percent was due to new construction (\$281,979,304).

The change in valuation does not in itself generate additional revenue for the City. If the Council took no optional increase in the levy and the assessed valuation increases, it would have the effect of lowering the rate applied to each \$1,000 of assessed valuation. Conversely, if the assessed valuation decreases, it results in an increase in the rate applied to each \$1,000 of assessed valuation, since the levy is set as a total dollar amount, which is divided by the assessed valuation.

Based on the final levy worksheet data for new construction (\$411,394) and the 1 percent optional increase, the regular levy tax rate for the City would decrease from \$1.45895 per \$1,000 of assessed valuation in 2015 to \$1.36411 in 2016. The rate per \$1,000 decreases because the total assessed valuation (AV) for the City has increased by 9.75 percent over the same period. This rate applies to all parcels in Kirkland.

The excess levy rate, which only applies to properties within the pre-annexation City boundaries, is decreasing from \$0.04336 to \$0.04004 based on both the reduction in annual debt payment and the increase in assessed valuation in the pre-annexation portion of the City.

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<sup>1</sup> Levy rate per the Final Levy Limit Worksheet from the King County Assessor's Office dated, January 22, 2016.

## 2. CONSOLIDATED FIRE STATION DEBT SERVICE LEVY

When annexation of the Juanita, Finn Hill, and Kingsgate neighborhoods became effective on June 1, 2011, Fire District 41, which served a majority of that area, was assumed by the City. The District's outstanding debt remains in place until it is retired. With the assumption of the District, the City Council has assumed the role of governing body with the authority to levy taxes to pay the outstanding debt service. For 2016, the City needs to collect \$470,572 to pay the debt service. King County as a whole has a 98 percent collection rate on tax levies, therefore, the City has set a levy of \$480,176 ( $\$470,572 \div 98$  percent) to pay debt service in 2016 by adopting Ordinance 4501 on November 17, 2015. This levy amount remains unchanged, therefore a new ordinance is not necessary.

Based on the King County Assessor's final levy worksheet dated January 26, 2016 for Fire District 41, the total assessed valuation for the areas previously served by the District is \$4,684,290,581. Therefore, the District's debt service levy of \$480,176 translates to a rate per \$1,000 assessed value of \$0.10251 on the properties within the North Juanita, Finn Hill and Kingsgate areas previously served by Fire District 41. Annexation area residents previously served by Fire District 41 will pay 2016 property taxes at the City of Kirkland regular levy rate (excluding voted debt service) plus the District's levy rate required to repay the District's outstanding debt.

## 3. SUMMARY

Since the annexation was approved by less than a 60 percent majority of voters, the residents of the annexation area did not assume the existing City's voted indebtedness and therefore will not pay the excess levy rate. In fact, tax payers within the City's current boundaries will have three separate levy rates based on their location:

1. Property owners within the existing (pre-annexation) City will pay the regular levy rate of \$1.36411 and the excess levy of \$0.04004 for a total of \$1.40415;
2. Property owners within the annexation area previously served by Fire District 41 will pay the regular levy rate of \$1.36411 and the excess levy of \$0.10251 to repay the District debt for a total of \$1.46661; and,
3. Property owners within the annexation area previously served by Fire Districts 36 (Woodinville) and 34 (Redmond) will pay the regular levy rate of \$1.36411 only.

The table below summarizes the changes in property tax rates between the preliminary and final property tax ordinances:

	<b>Pre-Annexation City</b>	<b>New Neighborhoods Previously Served by FD-41</b>	<b>New Neighborhoods Previously Served by Woodinville or Redmond</b>
Est. Prelim. Levy Rate (11/17/15)	\$ 1.44510	\$ 1.50764	\$ 1.40509
Est. Final Levy Rate (1/22/16)	\$ 1.40415	\$ 1.46661	\$ 1.36411
<b>Difference</b>	<b>\$ (0.04095)</b>	<b>\$ (0.04103)</b>	<b>\$ (0.04098)</b>

*Final Levy Recap:*

	Amount
2015 Regular Levy	26,879,307
Optional 1 percent Increase	268,793
New Construction	411,394
Other Adjustments^	68,358
<b>Total Regular Levy</b>	<b>27,627,852</b>
Excess Levy	574,065
<b>Total 2016 Final Levy</b>	<b>28,201,917</b>
Separate Fire District 41 Debt Service Levy	 480,176

^ Other adjustments include re-levy for prior-year refunds and any levy corrections or omissions.

ORDINANCE O-4530

AN ORDINANCE OF THE CITY OF KIRKLAND ESTABLISHING THE AMOUNT OF PROPERTY TAXES TO BE LEVIED FOR THE YEAR 2016, THE SECOND YEAR OF THE CITY OF KIRKLAND'S 2015-2016 FISCAL BIENNIUM AND REPEALING ORDINANCE 4500.

1           WHEREAS, the City Council previously held a public hearing on  
2 November 17, 2015, to consider amendments to the 2015-2016 Biennial  
3 Budget; and

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5           WHEREAS, the City Council and the City Manager have considered  
6 the anticipated financial requirements of the City of Kirkland for the  
7 fiscal year 2016; and

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9           WHEREAS, pursuant to RCW 35A.33.135, the City Council is  
10 required to determine and fix by ordinance the amount to be raised by  
11 ad valorem taxes; and

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13           WHEREAS, on November 17, 2015 the City Council passed  
14 Resolution 5167, which made a finding of substantial need under RCW  
15 84.55.0101, which authorizes a limit factor of 101 percent for the  
16 property tax levy for 2016; and

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18           WHEREAS, on November 17, 2015, the City Council passed  
19 Ordinance 4500 which was the preliminary property tax levy; and

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21           WHEREAS, the City Council wishes to repeal the preliminary  
22 property tax levy and pass the final tax levy based upon the most recent  
23 property tax levy data provided by King County; and

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25           WHEREAS, RCW 84.55.120 requires that the increase in the levy  
26 over the prior year shall be stated both as to dollars and percentage;

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28           NOW, THEREFORE, the City Council of the City of Kirkland do  
29 ordain as follows:

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31           Section 1. Ordinance 4500 passed November 17, 2015, is hereby  
32 repealed.

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34           Section 2. The regular property tax levy for the year 2016 is fixed  
35 and established in the amount of \$27,627,852. This property tax levy  
36 represents a dollar increase of \$268,793 and a percentage increase of  
37 1.0 percent from the previous year, excluding the addition of new  
38 construction, improvements to property, any increase in state-assessed  
39 property, and administrative refunds as shown below:

	Amount
<b>2016 Regular Levy</b>	<b>27,627,852</b>
Less 2015 Levy	26,879,307
Less New Construction	411,394
Less Refunds	68,358
<b>Total Increase</b>	<b>268,793</b>
<b>Percent Increase</b>	<b>1.00%</b>

40            Section 3. There is levied for 2016 upon all property, both real  
41 and personal, within the City of Kirkland, Washington, and within the  
42 area subject to tax levies for the principal and interest of all general  
43 obligation bond issues, a total voted property tax of \$574,065 on the  
44 total of assessed valuation for such property.

45  
46            Section 4. This ordinance shall be in force and effect five days  
47 from and after its passage by the Kirkland City Council and publication,  
48 as required by law.

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50            Passed by majority vote of the Kirkland City Council in open  
51 meeting this \_\_\_ day of \_\_\_\_\_, 2016.

52  
53            Signed in authentication thereof this \_\_\_ day of \_\_\_\_\_, 2016.

\_\_\_\_\_   
MAYOR

Attest:

\_\_\_\_\_  
City Clerk

Approved as to Form:

\_\_\_\_\_  
City Attorney