



CITY OF KIRKLAND
Department of Finance & Administration
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Michael Olson, Director of Finance and Administration
Tom Mikesell, Financial Planning Manager
Doug Honma-Crane, Budget Analyst

Date: November 3, 2016

Subject: Property Tax Levy Finding of Substantial Need

RECOMMENDATION:

Council adopt the attached resolution establishing a finding of substantial need to allow the property tax levy to increase 1% consistent with the preliminary 2017-2018 budget.

BACKGROUND DISCUSSION:

On September 26, 2016, the Department of Revenue released the rate of inflation for property taxes due in 2017 (Attachment 1). The Implicit Price Deflator (IPD) used to determine the property tax limit factor is 0.953 percent (0.953%).

For taxing districts with a population of 10,000 or more, the limit factor is the lesser of 101% or 100% plus inflation as measured by the IPD. However, with a finding of substantial need and supermajority council approval, larger taxing districts can adopt a limit factor up to a maximum of 101%. In order to increase the limit factor to 101%, a resolution or ordinance must be adopted by the district's governing body. Because the City Council is a legislative authority comprised of more than 4 members, the ordinance or resolution must be approved by a majority plus one. The limit factor authorized by the ordinance or resolution is for one year only, but the additional levy authority will be added to the City total dollar limit.

The preliminary 2017-2018 budget assumes that the City will implement the optional levy increase of 1%. Absent this increase, Staff estimates revenues will not meet budgeted levels in 2017. To carry out this increase, the City Council will need to adopt the resolution establishing a finding of substantial need. If no finding of substantial need is adopted, the property tax revenues for 2017 would be reduced by \$12,953. This reduction would affect the General Fund, the Parks Maintenance Fund and the 2012 Parks and Roads Levies, and would also translate into a permanent loss of property tax revenues in future years.

The cumulative lost revenue from this \$12,953, and any future compounding of this revenue between now and 2021 would be over \$65,000. The City's financial forecast assumes a 1% annual increase each year. So if the Council were not to approve the finding of substantial need, the annexation sales tax expiration gap would grow by this amount. While \$65,000 is not a substantial amount of money compared to the overall budget, the City still needs to identify over \$1.5 million of new revenue annually to close the gap, and so even small amounts are a necessary part of the solution.

There are a number of local caveats and uncertainties to consider in the determination of substantial need, including:

- The short term loss of sales tax revenues from businesses at Kirkland Urban (formerly Kirkland Parkplace) and the Village at Totem Lake (formerly Totem Lake Mall) during construction in 2017; and,
- The expiration of the Annexation Sales Tax Credit (\$4 million in 2016) in 2021.
- The need to continue to invest in additional first responder personnel to implement the Fire and Police Strategic Plans over time.



September 26, 2016

Dear County Assessors:

What is the rate of inflation (IPD rate) for 2017?

The rate of inflation (IPD rate) for property taxes due in 2017 is **0.953 percent**.

What is the limit factor for 2017 provided the taxing district adopts a resolution/ ordinance authorizing an increase over the prior year's levy?

For the state and taxing districts with populations of 10,000 or greater, the limit factor for property taxes due in 2017 is **100.953 percent**. The limit factor for these districts is defined as 100 percent plus the lesser of the rate of inflation or 1 percent.

For taxing districts with populations under 10,000, the limit factor for property taxes due in 2017 is **101 percent**.

How is the rate of inflation (IPD rate) calculated?

The rate of inflation is the percent change in the implicit price deflator for personal consumption as published by the Bureau of Economic Analysis by September 25th.

The most recent publication available on September 25th was the August publication. For this reason, we used the quarterly values to calculate the percent change in implicit price deflator for personal consumption for taxes due in 2016.

We calculate the percent change by dividing the Quarter 2 2016 number by the Quarter 2 2015 number, subtracting one, and then multiplying by 100. We used the following values in the calculation this year:

Quarter 2 2015	109.470
Quarter 2 2016	110.513

If you have any questions, please contact me.

Sincerely,

Valerie Torres
 Tax Policy Specialist
 Research & Fiscal Analysis
 Department of Revenue

cc: County Treasurers

RESOLUTION R-5221

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND
MAKING A DECLARATION OF SUBSTANTIAL NEED FOR PURPOSES OF
SETTING THE LIMIT FACTOR FOR THE PROPERTY TAX LEVY FOR 2017.

1 WHEREAS, RCW 84.55.010 provides that a taxing jurisdiction
2 may levy taxes in an amount no more than the limit factor multiplied by
3 the highest levy of the most recent three years plus additional amounts
4 resulting from new construction and improvements to property; and
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6 WHEREAS, under RCW 84.55.005(2)(c), the limit factor for a
7 taxing jurisdiction with a population of 10,000 or over is the lesser of
8 101 percent or 100 percent plus inflation; and
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10 WHEREAS, RCW 84.55.005(1) defines "inflation" as the
11 percentage of change in the implicit price deflator for personal
12 consumption expenditures for the United States as published for the
13 most recent 12-month period by the Bureau of Economic Analysis of the
14 federal Department of Commerce in September of the year before the
15 taxes are payable; and
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17 WHEREAS, "inflation" for July 2016 is 0.953 percent and the limit
18 factor is 100.953 percent; and
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20 WHEREAS, RCW 84.55.0101 provides for use of a limit factor of
21 up to 101 percent with a finding of substantial need by a majority of the
22 Council Members plus one; and
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24 WHEREAS, the preliminary 2017 budget assumes that the City
25 would implement the optional levy increase of one percent; and
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27 WHEREAS, if no finding of substantial need is adopted, the
28 property tax revenues for 2017 would be reduced by \$12,953; and
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30 WHEREAS, the City faces short and long term revenue losses,
31 including reduced sales taxes from Totem Lake and Parkplace during
32 construction activities and the expiration of the Annexation Sales Tax
33 Credit in 2021.
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35 NOW, THEREFORE, be it resolved by the City Council of the City
36 of Kirkland as follows:
37

38 Section 1. A finding is made of substantial need under RCW
39 84.55.0101, which authorizes a limit factor of 101 percent for the
40 property tax levy for 2017, due to the need to maintain and enhance
41 ongoing public services and to maintain the City's budgeted level of
42 revenues in 2017 recognizing the short term revenue loss posed by
43 construction at Totem Lake and Kirkland Urban and the longer term
44 financial challenge presented by the expiration of the Annexation Sales
45 Tax Credit in 2021.

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Passed by majority vote of the Kirkland City Council plus one in open meeting this ____ day of _____, 2016.

Signed in authentication thereof this ____ day of _____, 2016.

MAYOR

Attest:

City Clerk