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: **PRELIMINARY 2017 PROPERTY TAX LEVY PUBLIC HEARING AND ADOPTION**

RECOMMENDATION:

City Council conduct a public hearing and adopt the following ordinances levying property taxes for the year 2017:

1. Ordinance 4543 establishing the preliminary regular levy for the City of Kirkland and the excess levy for the pre-annexation City; and
2. Ordinance 4544 establishing the levy for the area previously served by Fire District 41 to pay debt service on the district's outstanding bonds.

BACKGROUND DISCUSSION:

Washington State law requires a public hearing on revenue sources that must include consideration of possible increases in property tax revenues (RCW 84.55.120). A public hearing on the City's property tax levy is scheduled for November 15. Following the public hearing, the City Council will be asked to establish the City's preliminary property tax levy by adopting Ordinance 4543 and the levy to support annual debt service for the Fire District's outstanding debt for 2017 by adopting Ordinance 4544.

The attached ordinances are required in order to meet the December 5 deadline established by the King County Council for submission of levy amounts. Each year the County prepares a levy worksheet for cities and other taxing districts that establishes the maximum levy capacity (within legal limits) and the amount of new construction valuation. The City cannot accurately calculate the amount of the levy until the final worksheet is received. The County estimates that the final levy worksheets will be available by late November. Since the date of the final levy worksheet is unknown, an ordinance needs to be passed that establishes a <u>maximum amount of property taxes the City expects to levy in 2017</u>. We use a maximum amount since the County will allow us to submit a final levy amount that is <u>lower</u> than the preliminary amount <u>but not higher</u>. Consequently, the preliminary property tax levy is typically higher than the final levy will be. The final levy will be calculated when the City receives its final levy worksheet

from King County and will be brought forward for adoption at the December 13 City Council meeting if possible, or it will be provided for adoption at the first available meeting after receiving the worksheet.

It should be noted that the property tax levies need to be established annually even though the Council will adopt a budget for the 2017-2018 biennium. Accordingly, the attached ordinances establish levies for 2017, the first year of the biennium.

The following discussion explains how the preliminary levy numbers were calculated for both the City and the Fire District.

1. REGULAR AND EXCESS LEVY FOR THE CITY OF KIRKLAND

This section explains how the preliminary levy numbers in Ordinance 4543 were calculated for each of the variable factors in the City's levy. 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 only applies within the pre-annexation boundary).

Regular Levy for City

For budgeting purposes there are three factors that make up the 2017 regular levy:

i. The base levy, which also includes:
   a. The 2002 levy lid lift for Parks Maintenance;
   b. The 2012 levy lid lift for City Street Maintenance and Pedestrian Safety; and,
   c. The 2012 levy lid lift for City Parks Maintenance, Restoration and Enhancement.
ii. The optional one percent increase
iii. The new construction levy

<u>The Base Levy</u>

The basis for calculating the 2017 levy is the 2016 regular levy of $27,559,494, which is comprised of four broad budget components, including:

- The base levy for the General Fund and the Street Fund;
- The 2002 Parks Maintenance Levy Lid Lift;
- The 2012 Street Maintenance and Pedestrian Safety Levy Lid Lift; and,
- The 2012 City Parks Maintenance, Restoration, and Enhancement Levy Lid Lift.

In addition any minor levy corrections, made by the King County Assessor, are added to the base levy. These corrections totaled $68,358 in 2016; the Assessor does not include this amount as part of the 2016 regular levy when calculating the optional increase.

<u>Optional Levy Increase</u>

The 2017-2018 Budget assumes the optional increase of one percent in 2017. 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 Implicit Price Deflator. 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%. The City Council will consider a finding of substantial need calling for the one percent optional increase on November 15.

In 2016, a one percent increase in the regular levy equates to $275,595, which is split between the four budget components as shown in the following table. Note that if there is no finding of substantial need, the increase would be reduced to 0.953% (a reduction of $12,953 to the base levy). This $12,953 in revenue, as well as any future compounding of this revenue, would be forgone in all future years as well. The cumulative lost 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 $1.5 million of new revenue annually to close the gap, and so even small amounts are a necessary part of the solution.

Budget Component	2016 Amount	One Percent	2017 Amount
General Fund & Street Fund	20,952,460	209,525	21,161,985
2002 Parks Maintenance Levy	1,262,311	12,623	1,274,934
2012 Streets Levy	2,995,394	29,954	3,025,348
2012 Parks Levy	2,349,329	23,493	2,372,822
Total	**27,559,494**	**275,595**	**27,835,089**

Levy Corrections

In some years, corrections to the previous year's levy are made and the King County Assessor's Office re-levies these refunds by adding the amount refunded to the upcoming year's levy. These refunds are in addition to the one percent increase (RCW 84.69.020). In 2017, the Assessor will be re-levying $31,046 in refunds making the levy plus one percent amount for the City equal to $27,866,135.

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[1] ($1.36409 per $1,000 of assessed valuation). The preliminary new construction valuation for the 2017 levy (as of October 31, 2016) is $349,751,576 which translates into a new construction levy of $477,093 ($349,751,576/$1,000 x $1.36409). 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 2017 new construction levy of $477,093 (as of October 31, 2016) is 1.68% percent of the total base regular levy for 2017.

For preliminary levy purposes in the preliminary ordinance (O-4543) only, new construction valuation is shown at $1,431,279, which is triple the October 31, 2016 figure. This is done to ensure that all new construction amounts will be available. The final new construction levy will not be known until the City receives its final levy worksheet from King County in December, and will likely be closer to the October 31 figure of $477,093. Once the final levy worksheet is received, staff will adjust the 2017 property tax levy accordingly and submit a final ordinance for Council approval on December 13, 2016 or as soon thereafter as possible.

[1] Levy rate per the Preliminary Levy Limit Worksheet from the King County Assessor's Office.

The new construction levy is allocated proportionately across the four areas that receive property tax funding. The table below shows how much would be distributed based on the new construction levy provided by the Assessor on October 31, 2016, as well as the amount (triple the Assessor's estimate) used in the preliminary ordinance (O-4543).

Budget Category	Levy with Optional One Percent Increase	Addition From New Construction	Assessor's Preliminary 2016 Levy
Base Levy (General Fund & Street Fund)	21,193,031	362,716	21,555,747
2002 Parks Maintenance Levy	1,274,934	21,852	1,296,786
2012 Streets Levy	3,025,348	51,855	3,077,202
2012 Parks Levy	2,372,822	40,670	2,413,493
Subtotal	**27,866,135**	**477,093**	**28,343,228**
Artificially High New Construction Increment		954,186	954,186
Total	**27,866,135**	**1,431,279**	**29,297,414**

* Base Levy includes the $31,046 refund correction.

Excess Levy for Pre Annexation City

The total excess levy for the City, which relates to voted debt paid within the pre-annexation boundaries, will increase by $8,730 in 2017 based on the payment schedule for the outstanding voted debt; in 2017 this amount will be $582,795. 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 per $1,000 assessed value of $0.03667.

Trends in Assessed Valuation

Assessed valuation is composed of new construction and revaluation of existing properties. Preliminary figures from King County dated October 31, 2016, indicate that compared to 2016, total assessed valuation increased by 9.71 percent. Of this amount, 1.68 percent is due to new construction.

For estimating purposes, in the preliminary levy only, new construction valuation is shown at triple the October 2016 figures to ensure that all new construction amounts will be available. It should be noted that the preliminary new construction figure from King County does not include the State utility assessed valuation, which has not been finalized yet.

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.

Preliminary Levy Rates

Based on the preliminary levy worksheet, an intentionally high estimate for new construction ($1,431,279), the one percent optional increase, the 2002 Parks Maintenance Levy, and the 2012 street and parks levies, the regular levy tax rate for the City would decrease from $1.36409 per $1,000 of assessed valuation in 2016 to $1.31852 in 2017. The rate per $1,000 decreases because the total assessed valuation (AV) for the City has increased by 9.71 percent over the same period. This rate applies to all parcels in Kirkland.

The excess levy rate, which applies for properties within the pre-annexation boundaries, is decreasing from $0.04004 to $0.03667 based on the increase in assessed valuation in the pre-annexation portion of the City.

Levy Type	Levy Amount	Applicable AV	Levy Rate
Regular Levy Rate	29,297,414	÷ $22,219,907,954/1,000	$1.31852
Excess Levy Rate	582,795	÷ $15,892,386,855/1,000	$0.03667

2. FIRE DISTRICT 41 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 2017, 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 is setting a levy of $480,176 ($470,572 ÷ 98 percent) to pay debt service in 2017.

This levy approved by Ordinance 4544 establishes a levy of $480,176 for the area previously served by Fire District 41 to pay debt service. This translates to a rate per $1,000 assessed value of $0.09629 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 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.

Levy Type	Levy Amount	Applicable AV	Levy Rate
Fire District 41 Levy Rate	480,176	÷ $4,986,896,311/1,000	$0.09629

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 boundaries have three separate levy rates based on their location (note that the preliminary rates shown are higher than the expected final rates that will be adopted on December 13):

1. Property owners within the pre-annexation City will pay the regular levy rate of $1.31852 and the excess levy of $0.03667 for a total of $1.35519;

2. Property owners within the annexation area previously served by Fire District 41 will pay the regular levy rate of $1.31852 and the excess levy of $0.09629 to repay the District debt for a total of $1.41481; 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 $1.31852 only.

While the total dollar amount of the levy is fixed, the final rate per $1,000 of AV can change based on the final AV at the time King County finalizes the levy rates (in late 2016). A final levy will be prepared for Council approval at the December 13 regular meeting.

Levy Type	Pre-Annexation City	New Neighborhoods Previously Served by FD-41	New Neighborhoods Previously Served by Woodinville or Redmond
Regular Levy Rate	$ 1.31852	$ 1.31852	$ 1.31852
Excess Levy Rate	$ 0.03667	N/A	N/A
FD-41 Debt Levy	N/A	$ 0.09629	N/A
Est. Prelim. Levy Rate	**$ 1.35519**	**$ 1.41481**	**$ 1.31852**

Preliminary Levy Recap:

Ordinance O-4543	Amount
2016 Regular Levy	27,559,494
Optional 1 percent Increase	275,595
New Construction[2]	1,431,279
Other Adjustments[3]	31,046
Total Regular Levy	**29,297,414**
Excess Levy	582,795
Total 2017 Preliminary Levy	**29,880,209**

Ordinance O-4544	Amount
Fire District 41 Debt Service Levy	480,176

Adoption of the preliminary property tax levies on November 15 is required in order to meet the King County deadline of December 5 to submit levy amounts. The final levy amount will be calculated based on the final property tax levy worksheet from King County, which is expected in the last week of November or early December. The final levy will be brought forward for Council action at the December 13 meeting or as soon thereafter as possible if the information is not received in time from King County.

[2] New construction levy is set at triple the latest new construction levy amount and will be reduced to the actual new construction allowance when final information is received from King County.
[3] Other adjustments include re-levy for prior-year refunds and any levy corrections or omissions made by King County.

ORDINANCE O-4543

AN ORDINANCE OF THE CITY OF KIRKLAND ESTABLISHING THE AMOUNT OF PROPERTY TAXES TO BE LEVIED FOR THE FISCAL YEAR 2017, THE FIRST YEAR OF THE CITY OF KIRKLAND'S 2017-2018 FISCAL BIENNIUM.

WHEREAS, the City Council held a public hearing on September 20, 2016 to consider revenue sources for the 2017-2018 Biennial Budget and a public hearing on November 15, 2016 on the 2017 preliminary property tax levy; and

WHEREAS, the City Council and the City Manager have considered the anticipated financial requirements of the City of Kirkland for fiscal year 2017; and

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

WHEREAS, pursuant to RCW 84.55.0101, a supermajority of the City Council adopted Resolution R-5221 on November 15, 2016, finding a substantial need and calling for the one percent optional levy increase; and

WHEREAS, RCW 84.55.120 requires that the increase in the levy over the prior year be stated both as to the dollar increase and percentage change;

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

Section 1. The regular property tax levy for fiscal year 2017 is hereby fixed and established in the amount of $29,297,414. This property tax levy represents a dollar increase of $275,595 and a percentage increase of one percent from the previous year, excluding the addition of new construction, improvements to property, any increase in state-assessed property, and administrative refunds as shown below:

	Amount
2017 Regular Levy	**29,297,414**
Less 2016 Levy	27,559,494
Less New Construction	1,431,279
Less Refunds	31,046
Total Increase	**275,595**
Percent Increase	**1.00%**

Section 2. There is hereby levied for fiscal year 2017 upon all property, both real and personal, within the City of Kirkland, Washington, and within the area subject to tax levies for the principal and interest of all general obligation bond issues, a total voted property tax of $582,795 on the total of assessed valuation for such property.

Section 3. This ordinance shall be in force and effect five days from and after its passage by the Kirkland City Council and publication pursuant to Section 1.08.017, Kirkland Municipal Code in the summary form attached to the original of this ordinance and by this reference approved by the City Council.

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

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

_____
MAYOR

Attest:

_____
City Clerk

Approved as to Form:

_____
City Attorney

PUBLICATION SUMMARY
OF ORDINANCE O-4543

AN ORDINANCE OF THE CITY OF KIRKLAND ESTABLISHING THE AMOUNT OF PROPERTY TAXES TO BE LEVIED FOR THE FISCAL YEAR 2017, THE FIRST YEAR OF THE CITY OF KIRKLAND'S 2017-2018 FISCAL BIENNIUM.

SECTION 1. Fixes and establishes the regular property tax levy for the fiscal year 2017.

SECTION 2. Levies a voted property tax for fiscal year 2017.

SECTION 3. Authorizes publication of the ordinance by summary, which summary is approved by the City Council pursuant to Section 1.08.017 Kirkland Municipal Code and establishes the effective date as five days after publication of summary.

The full text of this Ordinance will be mailed without charge to any person upon request made to the City Clerk for the City of Kirkland. The Ordinance was passed by the Kirkland City Council at its meeting on the _____ day of _____, 2016.

I certify that the foregoing is a summary of Ordinance _____ approved by the Kirkland City Council for summary publication.

_____
City Clerk

ORDINANCE O-4544

AN ORDINANCE OF THE CITY OF KIRKLAND ESTABLISHING THE AMOUNT OF PROPERTY TAXES TO BE LEVIED FOR THE YEAR 2017, TO PAY THE FIRE DISTRICT 41 DEBT SERVICE ASSUMED AS A RESULT OF ANNEXATION OF THE NORTH JUANITA, FINN HILL, AND KINGSGATE NEIGHBORHOODS ON JUNE 1, 2011.

WHEREAS, the City has annexed the territory formerly served by Fire District 41 which removed all of the territory served by the District from its jurisdiction by operation of law as of June 1, 2011; and

WHEREAS, RCW 35A.14.500 provides that "[w]hen any portion of a fire protection district is annexed by or incorporated into a code city, any outstanding indebtedness, bonded or otherwise, shall remain on obligation of the taxable property annexed or incorporated as if the annexation or incorporation had not occurred"; and

WHEREAS, RCW 35A.14.801(5) provides that "[i]f a code city annexes property within a fire district or library district while any general obligation bond secured by the taxing authority of the district is outstanding, the bonded indebtedness of the fire district or library district remains on obligation of the taxable property annexed as if the annexation had not occurred"; and

WHEREAS, the outstanding indebtedness obligation of the taxable property annexed is $2,158,401; and

WHEREAS, the City Council and the City Manager have considered the anticipated financial requirements of the City of Kirkland for the payment of the debt service for the fiscal year 2017; and

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

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

Section 1. The Fire District 41 debt service property tax levy for the year 2017 is hereby fixed and established in the amount of $480,176.

Section 2. This ordinance shall be in force and effect five days from and after its passage by the Kirkland City Council and publication, as required by law.

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

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

_____
MAYOR

Attest:

_____
City Clerk

Approved as to Form:

_____
City Attorney