



CITY OF KIRKLAND
Department of Finance & Administration
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Tracey Dunlap, Director of Finance and Administration
Sri Krishnan, Financial Planning Manager

Date: November 3, 2010

Subject: **PRELIMINARY 2011 PROPERTY TAX LEVY**

RECOMMENDATION:

Council approve the attached interim ordinance levying property taxes for the year 2011.

BACKGROUND DISCUSSION:

The attached interim ordinance is required in order to meet the December 3rd deadline established by the King County Council for submission of levy amounts. Each year the County prepares a levy worksheet for cities 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 either by the last week of November or the first week of December. Since the date of the final levy worksheet is unknown, an interim ordinance needs to be passed that establishes a maximum amount of property taxes the City expects to levy in 2011. We use a maximum amount since the County will allow us to submit a final levy amount that is lower than the preliminary amount but not higher. 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 7th City Council meeting.

It should be noted that the property tax levy still needs to be established annually even though the Council will adopt a budget for the 2011-2012 biennium. Accordingly, the attached ordinance relates to 2011 only.

The following discussion explains how the preliminary levy numbers were calculated for each of the variable factors in the levy. There are two components to the property tax levy — the regular levy, which funds operating costs, and the excess levy, which funds debt service on voter-approved bonds.

Regular Levy

For 2011, there are three factors impacting the amount of the regular levy – the new construction levy, the Bridleview annexation 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 quotient by the current year's

regular levy tax rate¹ (\$1.20942 per \$1,000 of assessed valuation). The preliminary new construction valuation for the 2011 levy (as of October 26, 2010) is \$38,086,316 which translates into a new construction levy of \$46,062 ($\$38,086,316/\$1,000 \times \1.20942). 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 0.74% and 4%. The estimated 2011 new construction levy of \$46,062 (as of 10/26/10) is 0.34% of the total base regular levy for 2010.

The attached interim ordinance includes new construction that is equivalent to 1.01% of the total 2011 regular levy or \$138,186, which is intentionally high 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. Once the final levy worksheet is received, staff will adjust the 2011 property tax levy accordingly and submit a final ordinance for Council approval on December 7, 2010.

Annexation Levy

In addition to new construction, the assessed valuation has increased to reflect the new properties added to the City's tax rolls by the Bridleview annexation. The increased assessed valuation is \$49,870,000 which results in an additional levy amount of \$64,743.

Optional Levy Increase

The preliminary 2011-2012 Budget assumes the optional increase of one percent in 2011. The July Implicit Price Deflator for Personal Consumption Expenditures was 1.539%, so the City Council will not have to consider a finding of substantial need in order to implement the optional one percent increase. Each one percent increase in the regular levy equates to a little more than \$128,500 in new revenue to the General Fund and about \$8,300 in new revenue to the Parks Maintenance Fund, for a total of about \$136,800.

Excess Levy

The total excess levy, which relates to voted debt, is decreasing from \$921,776 in 2010 to \$913,986 in 2011. This translates to a rate per \$1,000 assessed value of \$0.08529.

Trends in Assessed Valuation

Assessed valuation is composed of new construction and revaluation of existing properties. Preliminary figures from King County dated 10/26/10, indicate that the City's total assessed valuation decreased by 5.28% (\$597,565,176) comprised of a 0.34% increase due to new construction (\$38,086,316), a 0.44% increase due to annexation valuation (\$49,870,000), and a 6.06% decrease due to revaluations (\$685,521,492). For estimating purposes only, new construction valuation is shown at triple the 10/26/10 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 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, as it has in 2011, 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 preliminary levy worksheet, an intentionally high estimate for new construction (\$138,136) and the 1% optional increase, the regular levy tax rate would increase from \$1.20942 per \$1,000 of assessed valuation in 2010 to \$1.31090 in 2011. The rate per \$1,000 increases even though the total

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

assessed valuation (AV) has decreased by 5.28% over the same period. When the excess levy is added in, the total tax rate goes from \$1.29137 to \$1.39619. Note that the total dollar amount of the levy is fixed but 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 early 2011). A final levy will be prepared for Council approval at their December 7th regular meeting.

Preliminary Levy Recap:

Base General Levy (2011 Rate)	\$	12,850,467
1% Optional Increase (General Levy)		128,505
Base Parks Maintenance Levy (2011)		830,723
1% Optional Increase (Parks Maint. Levy)		8,307
New Construction and Prior Yr. Adjustments*		229,617
Total Regular and Parks Maint. Levy	\$	14,047,619
Excess Levy (for voted debt)		913,986
Total 2011 Preliminary Levy	\$	14,961,605

*Prior-year adjustments include new construction levy, re-levy for prior-year refunds, and any levy corrections or omissions. New construction levy is estimated at 1.01% over the current levy and will be reduced to the actual new construction allowance when final information is received from King County. The estimated prior-year refund levy for 2010 is \$43,612 as of October 26, 2010. The Bridleview annexation levy of \$64,743 for 2010 is included in the preliminary figures.

Attachments

ORDINANCE NO. 4273

AN ORDINANCE OF THE CITY OF KIRKLAND ESTABLISHING THE AMOUNT OF PROPERTY TAXES TO BE LEVIED FOR THE YEAR 2011, THE FIRST YEAR OF THE CITY OF KIRKLAND'S 2011-2012 FISCAL BIENNIUM.

WHEREAS, the City Council previously held a public hearing on September 21, 2010, to consider revenue sources for the 2011-2012 Biennial Budget; and

WHEREAS, the City Council and the City Manager have considered the anticipated financial requirements of the City of Kirkland for the fiscal year 2011; 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, RCW 84.55.120 requires that the increase in the levy over the prior year shall be stated both as to dollars and percentage;

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

Section 1. The regular property tax levy for the year 2011 is hereby fixed and established in the amount of \$14,047,619. This property tax levy represents a dollar increase of \$366,429 and a percentage increase of 2.68% from the previous year, including the increase resulting from the addition of new construction, improvements to property, any increase in state-assessed property, and administrative refunds as shown below:

2010 Regular Property Tax Levy	13,681,190	
Less Prior Year Refund	0	
Plus New Construction Levy	138,186	1.01%
Plus Annexation Levy	64,743	0.47%
Plus Refund Levy	43,612	0.32%
Plus Property Tax Increase	136,812	1.00%
Less Levy Corrections by King County	(16,924)	-0.12%
2011 Regular Levy	14,047,619	2.68%

Section 2. There is hereby levied for 2011 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 \$913,986 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, as required by law.

Passed by majority vote of the Kirkland City Council in open meeting this _____ day of _____, 2010.

Signed in authentication thereof this _____ day of _____, 2010.

MAYOR

Attest:

City Clerk

Approved as to Form:

City Attorney