



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

Date: November 3, 2015

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 adopted 2016 budget.

BACKGROUND DISCUSSION:

On September 28, 2015, the Department of Revenue released the rate of inflation for property taxes due in 2016 (Attachment 1). The Implicit Price Deflator (IPD) used to determine the property tax limit factor is 0.251 percent (0.251%).

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 four 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 adopted 2016 budget assumed that the City would implement the optional levy increase of 1%. Absent this increase, Staff estimates revenues will not meet budgeted levels in 2016. 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 2016 would be reduced by \$201,326. 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.

As discussed at the November 4, 2015 Study Session on the 2015-2016 Mid-Biennial Budget, 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 Totem Lake Mall and Parkplace business during construction in 2016; and,
- The expiration of the Annexation Sales Tax Credit (\$4 million in 2016) in 2021.

In addition, Resolution R-5163, adds on-going funding of a fourth firefighter at station 25 in 2017 (for future station 24) totaling approximately \$450,000.

At the conclusion of the Study Session, the Council requested that a resolution establishing a finding of substantial need be brought back to the November 17 Council meeting. Also as a result of the Study Session discussion, the two preliminary property tax levy ordinances were drafted with the assumption that the finding of substantial need will be approved and the optional one percent levy increase is included. If the Council does not approve the resolution, both ordinances will need to be adjusted down to the Implicit Price Deflator increase of 100.251%.



STATE OF WASHINGTON
DEPARTMENT OF REVENUE

September 28, 2015

Dear County Assessors:

What is the rate of inflation (IPD rate) for 2016?

The rate of inflation (IPD rate) for property taxes due in 2016 is **0.251 percent**.

What is the limit factor for 2016 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 2016 is **100.251 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 2016 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 September 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 2015.

We calculate the percent change by dividing the Quarter 2 2015 number by the Quarter 2 2014 number, subtracting one, and then multiplying by 100. We used the following values in the calculation this year:

Quarter 2 2014	109.114
Quarter 2 2015	109.388

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-5167

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND
MAKING A FINDING OF SUBSTANTIAL NEED FOR PURPOSES OF
SETTING THE LIMIT FACTOR FOR THE PROPERTY TAX LEVY FOR 2016.

1 WHEREAS, RCW 84.55.0101 provides that a taxing jurisdiction
2 may levy taxes in an amount that does not exceed the limit factor
3 multiplied by the highest levy of the most recent three years plus
4 additional amounts resulting from new construction and improvements
5 to property; and
6

7 WHEREAS, under RCW 84.55.005(2)(c), the limit factor for a
8 taxing jurisdiction with a population of 10,000 or over is the lesser of
9 101 percent or 100 percent plus inflation; and
10

11 WHEREAS, RCW 84.55.005(1) defines "inflation" as the
12 percentage of change in the implicit price deflator for personal
13 consumption expenditures for the United States as published for the
14 most recent 12-month period by the Bureau of Economic Analysis of the
15 federal Department of Commerce in September of the year before the
16 taxes are payable; and
17

18 WHEREAS, "inflation" for July 2015 is 0.251 percent and the limit
19 factor is 100.251 percent, meaning the taxes levied in the City of
20 Kirkland in 2015 for collection in 2016 will decrease from the budgeted
21 level except for the amounts resulting from new construction and
22 improvements to property; and
23

24 WHEREAS, RCW 84.55.0101 provides for use of a limit factor of
25 up to 101 percent with a finding of substantial need by a majority of
26 the Council Members plus one; and
27

28 WHEREAS, the adopted 2016 budget assumed that the City
29 would implement the optional levy increase of one percent; and
30

31 WHEREAS, if no finding of substantial need is adopted, the
32 property tax revenues for 2016 would be reduced by \$201,326; and
33

34 WHEREAS, Resolution R-5163 supports the addition of an
35 ongoing firefighter position at Fire Station 25 in 2017, for deployment
36 at the new Fire Station 24 when it is constructed, which represents a
37 new on-going cost; and
38

39 WHEREAS, the City faces short and long term revenue losses,
40 including reduced sales taxes from Totem Lake and Parkplace during
41 construction activities and the expiration of the Annexation Sales Tax
42 Credit in 2021.
43

44 NOW, THEREFORE, be it resolved by the City Council of the City
45 of Kirkland as follows:

46 Section 1. A finding is made of substantial need under RCW
 47 84.55.0101, which authorizes a limit factor of 101 percent for the
 48 property tax levy for 2016, due to the need to maintain and enhance
 49 ongoing public safety services, including the addition of an ongoing
 50 firefighter position at Fire Station 25, and to maintain the City's
 51 budgeted level of revenues in 2016 recognizing the short term revenue
 52 loss posed by construction at Totem Lake and Parkplace and the longer
 53 term financial challenge presented by the expiration of the Annexation
 54 Sales Tax Credit in 2021.

55
 56 Passed by majority vote of the Kirkland City Council plus one in
 57 open meeting this _____ day of _____, 2015.

58
 59
 60 Signed in authentication thereof this ____ day of _____,
 61 2015.

 MAYOR

Attest:

 City Clerk