



**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:** November 4, 2015

**Subject: PRELIMINARY 2015 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 2016:

1. Ordinance 4500 establishing the preliminary regular levy for the City of Kirkland and the excess levy for the pre-annexation City; and
2. Ordinance 4501 establishing the levy for the area previously served by Fire District 41 to pay debt service on the district's outstanding bonds.

Both ordinances assume that the Council adopts a resolution declaring a "finding of substantial need" to allow the full optional one percent increase as was requested by the Council at the November 4 Council study session.

**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 17. Following the public hearing, the City Council will be asked to establish the City's preliminary property tax levy by adopting Ordinance 4500 and the levy to support annual debt service for the Fire District's outstanding debt for 2016 by adopting Ordinance 4501.

The attached ordinances are required in order to meet the December 4 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 either by the last week of November or the first week of December. Since the date of the final levy worksheet is unknown, an ordinance needs to be passed that establishes a maximum amount of property taxes the City expects to levy in

2016. 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 8 City Council meeting.

It should be noted that the property tax levies need to be established annually even though the Council has adopted a budget for the 2015-2016 biennium. Accordingly, the attached ordinances establish levies for 2016, the second 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 4500 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 2016 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

### The Base Levy

The basis for calculating the 2016 levy is the 2015 regular levy of \$26,879,307, which is comprised of four broad budget components, including:

- The base levy for 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 \$48,855 in 2015; the Assessor does not include this amount as part of the 2015 regular levy when calculating the optional increase.

### Optional Levy Increase

The 2015-2016 Budget assumes the optional increase of one percent in 2016. 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 also consider a finding of substantial need calling for the one percent optional increase on November 17.

In 2016, a one percent increase in the regular levy equates to \$268,793, 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 0.251% (a reduction of \$201,326 to the base levy).

<b>Budget Component</b>	<b>2015 Amount</b>	<b>One Percent</b>	<b>2016 Amount</b>
General Fund & Street Fund	20,337,690	203,377	20,541,066
2002 Parks Maintenance Levy	1,249,812	12,498	1,262,311
2012 Streets Levy	2,965,737	29,657	2,995,394
2012 Parks Levy	2,326,068	23,261	2,349,329
<b>Total</b>	<b>26,879,307</b>	<b>268,793</b>	<b>27,148,100</b>

### 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 2016, the Assessor will be re-levying \$68,645 in refunds making the levy plus one percent amount for the City equal to \$27,216,745.

### 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 preliminary new construction valuation for the 2016 levy (as of October 28, 2015) is \$287,282,555 which translates into a new construction levy of \$419,131 ( $\$287,282,555 / \$1,000 \times \$1.45895$ ). 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 \$419,131 (as of October 28, 2015) is 1.54% percent of the total base regular levy for 2016.

For preliminary levy purposes in the preliminary ordinance (O-4500) only, new construction valuation is shown at \$1,257,393, which is triple the October 28, 2015 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 28 figure of \$419,131. Once the final levy worksheet is received, staff will adjust the 2016 property tax levy accordingly and submit a final ordinance for Council approval on December 8, 2015.

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 28, 2015, as well as the amount (triple the Assessor's estimate) used in the preliminary ordinance (O-4500).

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

<b>Budget Category</b>	<b>Levy with Optional One Percent Increase</b>	<b>Addition From New Construction</b>	<b>Assessor's Preliminary 2016 Levy</b>
Base Levy (General Fund & Street Fund)*	20,609,711	317,127	20,926,838
2002 Parks Maintenance Levy	1,262,311	19,488	1,281,799
2012 Streets Levy	2,995,394	46,245	3,041,639
2012 Parks Levy	2,349,329	36,271	2,385,600
<b>Subtotal</b>	<b>27,216,745</b>	<b>419,131</b>	<b>27,635,876</b>
Artificially High New Construction Increment		838,262	838,262
<b>Total</b>	<b>27,216,745</b>	<b>1,257,393</b>	<b>28,474,138</b>

\* Base Levy includes the \$68,645 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 in by \$4,075 in 2016 based on the payment schedule for the outstanding voted debt; in 2016 this amount will be \$574,065. 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 \$0.04001.

### *Trends in Assessed Valuation*

Assessed valuation is composed of new construction and revaluation of existing properties. Preliminary figures from King County dated October 28, 2015, indicate that compared to 2015, total assessed valuation increased by 9.82 percent. Of this amount, 1.56 percent is due to new construction.

For estimating purposes, in the preliminary levy only, new construction valuation is shown at triple the October 2015 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 (\$1,257,393), 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 \$1.45895 per \$1,000 of assessed valuation in 2015 to \$1.40509 in 2016. The rate per \$1,000 decreases because the total assessed valuation (AV) for the City has increased by 9.82 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 \$0.04336 to \$0.04001 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	28,474,138	÷ \$20,264,998,234/1,000	\$1.40509
Excess Levy Rate	574,065	÷ \$14,349,569,263/1,000	\$0.04001

## 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 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 is setting a levy of \$480,176 ( $\$470,572 \div 98$  percent) to pay debt service in 2016.

This levy approved by Ordinance 4501 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 \$0.10255 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.

Levy Type	Levy Amount	Applicable AV	Levy Rate
Fire District 41 Levy Rate	480,176	÷ \$4,682,355,430/1,000	\$0.10255

## 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 8):

1. Property owners within the pre-annexation City will pay the regular levy rate of \$1.40509 and the excess levy of \$0.04001 for a total of \$1.44510;
2. Property owners within the annexation area previously served by Fire District 41 will pay the regular levy rate of \$1.40509 and the excess levy of \$0.10255 to repay the District debt for a total of \$1.50764; 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 \$1.40509 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 early 2016). A final levy will be prepared for Council approval at the December 8 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	\$1.40509	\$1.40509	\$1.40509
Excess levy Rate	\$0.04001	N/A	N/A
FD-41 Debt Levy	N/A	\$0.10255	N/A
<b>Est. Prelim. Levy Rate</b>	<b>\$1.44510</b>	<b>\$1.50764</b>	<b>\$1.40509</b>

*Preliminary Levy Recap:*

	Amount
2015 Regular Levy	26,879,307
Optional 1 percent Increase	268,793
New Construction*	1,257,393
Other Adjustments^	68,645
<b>Total Regular Levy</b>	<b>28,474,138</b>
Excess Levy	574,065
<b>Total 2016 Preliminary Levy</b>	<b>29,048,203</b>

\* 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.

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

Adoption of the preliminary property tax levies on November 17 is required in order to meet the King County deadline of December 4 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 8 meeting.

ORDINANCE O-4500

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.

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

4  
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

8  
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

12  
13 WHEREAS, RCW 84.55.120 requires that the increase in the levy  
14 over the prior year be stated both as to the dollar increase and  
15 percentage change; and

16  
17 WHEREAS, on November 17, 2015, the City Council adopted  
18 Resolution R-1567 making a finding that there is a substantial need,  
19 under RCW 84.55.0101, to set the levy limit at 101 percent.

20  
21 NOW, THEREFORE, the City Council of the City of Kirkland do  
22 ordain as follows:

23  
24 Section 1. The regular property tax levy for the year 2016 is  
25 hereby fixed and established in the amount of \$28,474,138. This  
26 property tax levy represents a dollar increase of \$268,793 and a  
27 percentage increase of one percent from the previous year, excluding  
28 the addition of new construction, improvements to property, any  
29 increase in state-assessed property, and administrative refunds as  
30 shown below:

	Amount
<b>2016 Regular Levy</b>	<b>28,474,138</b>
Less 2015 Levy	26,879,307
Less New Construction	1,257,393
Less Refunds	68,645
<b>Total Increase</b>	<b>268,793</b>
<b>Percent Increase</b>	<b>1.00%</b>

31 Section 2. There is hereby levied for 2016 upon all property,  
32 both real and personal, within the City of Kirkland, Washington, and

33 within the area subject to tax levies for the principal and interest of all  
34 general obligation bond issues, a total voted property tax of \$574,065  
35 on the total of assessed valuation for such property.

36  
37 Section 3. This ordinance shall be in force and effect five days  
38 from and after its passage by the Kirkland City Council and publication,  
39 as required by law.

40  
41 Passed by majority vote of the Kirkland City Council in open  
42 meeting this \_\_\_\_\_ day of \_\_\_\_\_, 2015.

43  
44 Signed in authentication thereof this \_\_\_\_\_ day of  
45 \_\_\_\_\_, 2015.

\_\_\_\_\_  
MAYOR

Attest:

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

Approved as to Form:

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

ORDINANCE O-4501

AN ORDINANCE OF THE CITY OF KIRKLAND ESTABLISHING THE AMOUNT OF PROPERTY TAXES TO BE LEVIED FOR THE YEAR 2016, 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.

1           WHEREAS, the City has annexed the territory formerly served by  
2 Fire District 41 which removed all of the territory served by the District  
3 from its jurisdiction by operation of law as of June 1, 2011; and  
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5           WHEREAS, RCW 35A.14.500 provides that “[w]hen any portion of  
6 a fire protection district is annexed by or incorporated into a code city,  
7 any outstanding indebtedness, bonded or otherwise, shall remain on  
8 obligation of the taxable property annexed or incorporated as if the  
9 annexation or incorporation had not occurred”; and  
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11           WHEREAS, RCW 35A.14.801(5) provides that “[i]f a code city  
12 annexes property within a fire district or library district while any general  
13 obligation bond secured by the taxing authority of the district is  
14 outstanding, the bonded indebtedness of the fire district or library  
15 district remains on obligation of the taxable property annexed as if the  
16 annexation had not occurred”; and  
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18           WHEREAS, the outstanding indebtedness obligation of the taxable  
19 property annexed is \$2,550,470; and  
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21           WHEREAS, the City Council and the City Manager have considered  
22 the anticipated financial requirements of the City of Kirkland for the  
23 payment of the debt service for the fiscal year 2016; and  
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25           WHEREAS, pursuant to RCW 35A.33.135, the City Council is  
26 required to determine and fix by ordinance the amount to be raised by  
27 ad valorem taxes;  
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29           NOW, THEREFORE, the City Council of the City of Kirkland do  
30 ordain as follows:  
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32           Section 1.     The Fire District 41 debt service property tax levy  
33 for the year 2016 is hereby fixed and established in the amount of  
34 \$480,176.  
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36           Section 2.     This ordinance shall be in force and effect five days  
37 from and after its passage by the Kirkland City Council and publication,  
38 as required by law.

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Passed by majority vote of the Kirkland City Council in open meeting this \_\_\_\_\_ day of \_\_\_\_\_, 2015

Signed in authentication thereof this \_\_\_\_\_ day of \_\_\_\_\_, 2015.

\_\_\_\_\_  
MAYOR

Attest:

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

Approved as to Form:

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