



CITY OF KIRKLAND
Department of Finance & Administration
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MEMORANDUM

To: David Ramsay, City Manager

From: Tracey Dunlap, Director of Finance and Administration
Sri Krishnan, Senior Financial Analyst

Date: November 6, 2008

Subject: **PRELIMINARY 2009 PROPERTY TAX LEVY**

RECOMMENDATION:

Council approve the attached interim ordinance levying property taxes for the year 2009.

BACKGROUND DISCUSSION:

The attached interim ordinance is required in order to meet the November 28th 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 November 18th is the last regular Council meeting before the November 28th deadline, an interim ordinance needs to be passed that establishes a maximum amount of property taxes the City expects to levy in 2009. 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 16th City Council meeting.

It should be noted that the property tax levy still needs to be established annually even though the Council will be adopting a budget for the 2009-2010 biennium. Accordingly, the attached ordinance relates to 2009 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 2009, there are three factors impacting the amount of the regular levy – the new construction levy, the optional increase, and banked capacity.

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

November 6, 2008

Page 2

\$1,000 and multiplying the quotient by the current year's regular levy tax rate: (\$1.14882 per \$1,000 of assessed valuation). The preliminary new construction valuation for the 2009 levy (as of October 27, 2008) is \$211,454,555, which translates into a new construction levy of \$242,923 ($\$211,454,555 / \$1,000 \times \1.14882). Over the past eight years, the increase in new construction levy as a percentage of each year's total base regular levy has ranged between 1% and 4%. The estimated 2009 new construction levy of \$242,923 is 1.87% of the total base regular levy for 2009.

The attached interim ordinance includes new construction that is equivalent to 3.75% of the total 2009 regular levy or \$485,846, 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 2009 property tax levy accordingly and submit a final ordinance for Council approval on December 16, 2008.

Note that the King County Assessor's Office has notified jurisdictions that pending budget reductions at King County could adversely impact their ability to add new construction valuation in the future. City staff is closely monitoring these developments and will report back to the City Council as impacts become more clearly defined.

Optional Levy Increase

The Preliminary 2009-2010 Budget assumes an optional increase of one percent in each year, so the 2009 preliminary levy includes the one percent increase. Each one percent increase in the regular levy equates to almost \$122,000 in new revenue to the General Fund and Street Operating and about \$8,000 in new revenue to the Parks Maintenance Fund, for a total of about \$130,000.

Banked Capacity

The law also allows the use of "banked" capacity, which is the amount of unused optional increases that have accumulated over the years. The banked capacity remaining under the 2008 allowable levy was estimated at \$145,000. The preliminary 2009-2010 Budget assumes the use of all remaining banked capacity which is estimated at \$108,436 based on the data from the King County Assessor's Office on October 27, 2008. To date, the City has not received the explanation of the reduction in banked capacity from \$145,000 to the current estimate of \$108,436. Generally, banked capacity is reduced due to re-levy for prior-year refunds and any levy corrections or omissions.

This use of the City's remaining banked capacity means that \$108,436 will be added to the 2009 levy, which will then become part of the City's base levy in 2010. No additional banked capacity amount will be available after Council authorizes this use.

Excess Levy

The total excess levy, which relates to voted debt, is increasing from \$1,452,838 in 2008 to \$1,456,986 in 2009. This translates to a rate per \$1,000 assessed value of \$0.11087 (a decrease from the 2008 rate of \$0.12736).

Trends in Assessed Valuation

Growth in assessed valuation is composed of new construction and revaluation of existing properties. Preliminary figures from King County dated 10/27/08, indicate that the City's total assessed valuation increased by 15.21% (\$1,734,654,419) with 1.85% (\$211,454,555) due to new construction and 13.35% (\$1,523,199,864) due to revaluations. For estimating purposes only, new construction valuation is shown at double the 10/27/08 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 assessed valuation, which has not been finalized yet.

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

November 6, 2008

Page 3

The increase 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.

Based on the preliminary levy worksheet, the use of the remaining banked capacity (\$108,436), an intentionally high estimate for new construction (\$485,846), and the 1% optional increase the overall tax rate (regular levy only) would decrease from \$1.27618 per \$1,000 of assessed valuation in 2008 to \$1.13843 in 2009. Note that the total dollar amount of the levy is fixed but the final rate per \$1,000 of assessed valuation (AV) can change based on the final AV at the time King County finalizes the levy rates (in early 2009). A final levy will be prepared for Council approval at their December 16th regular meeting.

Preliminary Levy Recap:

Base General Levy (2009 Rate)	\$ 12,168,960
1% Optional Increase (General Levy)	121,690
Estimated Optional Banked Capacity	108,436
Base Parks Maintenance Levy (2009)	793,459
1% Optional Increase (Parks Maint. Levy)	7,935
New Construction and Prior Yr. Adjustments*	<u>504,584</u>
Total Regular and Parks Maint Levy	\$ 13,705,064
Excess Levy (for voted debt)	<u>1,456,986</u>
Total 2009 Preliminary Levy	<u>\$15,162,050</u>

*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 4.0% 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 2009 is \$18,738 as of October 27, 2008. There are no levy corrections for 2009 in the preliminary figures.

Attachments

Cc: Sandi Hines, Financial Planning Manager

CITY OF KIRKLAND
2009 PROPERTY TAX DISTRIBUTION (PRELIMINARY LEVY)

Taxable Assessed Valuation For 2009 Levy		\$13,141,914,744
REGULAR LEVY		
<u>Operating Fund</u>	<u>Levy</u>	<u>Rate per \$1,000 AV</u>
General Fund	\$9,750,510	\$0.74194
Street Operating Fund	\$3,115,636	\$0.23708
Parks Maintenance Fund	\$838,918	\$0.06384
<i>Total 2009 Regular Levy</i>	<i>\$13,705,064</i>	<i>\$1.04285</i>
EXCESS LEVY		
<u>Unlimited General Obligation Bond Issue</u>	<u>Levy</u>	<u>Rate per \$1,000 AV</u>
1993 Unlimited G.O. Refunding (Parks)	\$544,613	\$0.04144
1995 Unlimited G.O. (Public Safety)	\$89,888	\$0.00684
2001 Unlimited G.O. Refunding (Public Safety)	\$185,100	\$0.01408
2003 Unlimited G.O. (Parks)	\$637,385	\$0.04850
<i>Total 2009 Excess Levy</i>	<i>\$1,456,986</i>	<i>\$0.11087</i>
TOTAL LEVY		
	<u>Levy</u>	<u>Rate per \$1,000 AV</u>
<i>Total 2009 Levy</i>	<i>\$15,162,050</i>	<i>\$1.15372</i>

ORDINANCE NO. 4154

AN ORDINANCE OF THE CITY OF KIRKLAND ESTABLISHING THE AMOUNT OF PROPERTY TAXES TO BE LEVIED FOR THE YEAR 2009, THE FIRST YEAR OF THE CITY OF KIRKLAND'S 2009-2010 FISCAL BIENNIUM.

WHEREAS, the City Council previously held a public hearing on September 16, 2008, to consider revenue sources for the 2009-2010 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 2009; 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 2009 is hereby fixed and established in the amount of \$13,705,064. This property tax levy represents a dollar increase of \$742,645 and a percentage increase of 5.73% 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:

	Amount	% Increase (Decrease)
2008 Regular Property Tax Levy	12,962,419	
Less Prior Year Refund	0	
Plus New Construction Levy	485,846	3.75%
Plus Annexation Levy	0	0.00%
Plus Refund Levy	18,738	0.14%
Plus Property Tax Increase	238,061	1.84%
2009 Regular Levy	13,705,064	5.73%

Section 2. There is hereby levied for 2009 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 \$1,456,986 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 _____, 2008.

Signed in authentication thereof this _____ day of _____, 2008.

MAYOR

Attest:

City Clerk

Approved as to Form:

City Attorney