



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
Tom Mikesell, Financial Planning Manager

Date: November 7, 2014

Subject: PRELIMINARY 2015 PROPERTY TAX LEVY PUBLIC HEARINGS AND ADOPTION

RECOMMENDATION:

City Council conducts a public hearing and adopts the following ordinances levying property taxes for the year 2015:

1. Ordinance 4464 establishing the preliminary regular levy for the City of Kirkland and the excess levy for the pre-annexation City; and
2. Ordinance 4465 establishing the levy for the area previously served by Fire District 41 to pay debt service for the consolidated fire station.

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). This hearing was held on September 16, 2014. A public hearing on the City's property tax levy is scheduled for November 18. Following the public hearing, the City Council will be asked to establish the City's preliminary property tax levy by adopting Ordinance 4464 and the levy to support annual debt service for the Fire District's outstanding consolidated fire station debt for 2015 by adopting Ordinance 4465.

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 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 2015. 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 9 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 2015, 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 4464 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 2015 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,
 - c. The 2012 levy lid lift for City Parks Maintenance, Restoration and Enhancement, and
- ii. The optional one percent increase
- iii. The new construction levy

The Base Levy

The basis for calculating the 2015 levy is the 2014 regular levy of \$26,133,618, which is comprised of four broad budget components. 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.

Optional Levy Increase

The 2015-2016 Budget assumes the optional increase of one percent in 2015. In 2015, a one percent increase in the regular levy equates to \$261,336, which is split between the four budget components as shown below.

Budget Component	2014 Amount	One Percent Increase	2015 Amount
General Fund & Street Fund	19,656,769	196,568	19,853,337
2002 Parks Maintenance Levy	1,237,438	12,374	1,249,812
2012 Streets Levy	2,936,373	29,364	2,965,737
2013 Parks Levy	2,303,038	23,030	2,326,068
Total	26,133,618	261,336	26,394,954

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 2015, the Assessor will be re-levying \$48,855 in refunds making the levy plus one percent amount for the City equal to \$26,443,809.

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 rate¹ (\$1.65892 per \$1,000 of assessed valuation). The preliminary new construction valuation for the 2015 levy (as of November 4, 2014) is \$292,073,688 which translates into a new construction levy of \$484,527 ($\$292,073,688 / \$1,000 \times \1.65892). 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 2015 new construction levy of \$484,527 (as of November 4, 2014) is 1.8% percent of the total regular levy for 2015.

For preliminary levy purposes in the preliminary ordinance (O-4464) only, new construction valuation is shown at \$1,453,581, which is triple the November 4, 2014 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 November 4 figure of \$484,527. Once the final levy worksheet is received, staff will adjust the 2015 property tax levy accordingly and submit a final ordinance for Council approval on December 9, 2014.

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 November 4, 2014, as well as the amount (triple the Assessor's estimate) used in the preliminary ordinance (O-4464).

Budget Category	Levy with Optional One Percent Increase	Addition From New Construction	Assessor's Preliminary 2015 Levy
Base Levy (General Fund & Street Fund)*	19,902,192	364,444	20,266,635
2002 Parks Maintenance Levy	1,249,812	22,943	1,272,755
2012 Streets Levy	2,965,737	54,441	3,020,178
2012 Parks Levy	2,326,068	42,699	2,368,768
Subtotal	26,443,809	484,527	26,928,336
Artificially High New Construction Increment		969,054	969,054
Total	26,443,809	1,453,581	27,897,390

* Base Levy includes the \$48,855 refund correction.

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

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 decrease in 2015 based on the payment schedule for the outstanding voted debt; in 2015 this amount will be \$569,990. 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 \$0.04337.

Trends in Assessed Valuation

Assessed valuation is composed of new construction and revaluation of existing properties. Preliminary figures from King County dated November 4, 2014, indicate that compared to 2014, total assessed valuation increased by 16.98 percent. Of this amount, 1.85 percent is due to new construction.

For estimating purposes, in the preliminary levy only, new construction valuation is shown at triple the November 2014 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 (\$1,453,581), and the one percent optional increase, the regular levy tax rate for the City would decrease from \$1.65892 per \$1,000 of assessed valuation in 2014 to \$1.51182 in 2015. The rate per \$1,000 decreases because the total assessed valuation (AV) for the City has increased by 16.98 percent over the same period and we are using an artificially high new construction value. This rate applies to all parcels in Kirkland.

The excess levy rate, which applies for properties within the pre-annexation boundaries, is decreasing from \$0.05773 to \$0.04337 based on the decrease in the annual debt payment and increase in assessed valuation in the pre-annexation portion of the City.

Levy Type	Levy Amount	Applicable AV	Levy Rate
Regular Levy Rate	27,897,390	÷ \$18,452,886,021/1,000	\$1.51182
Excess Levy Rate	569,990	÷ \$13,142,292,236/1,000	\$0.04337

2. CONSOLIDATED FIRE STATION 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 for the consolidated fire station 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 on the consolidated fire station. For 2015, 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 2015.

This levy approved by Ordinance 4465 establishes a levy of \$480,176 for the area previously served by Fire District 41 to pay debt service for the consolidated fire station. This translates to a rate per \$1,000 assessed value of \$0.11402 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 2015 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	$\div \$4,211,223,586/1,000$	\$0.11402

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 9):

1. Property owners within the pre-annexation City will pay the regular levy rate of \$1.51182 and the excess levy of \$0.04337 for a total of \$1.55519;
2. Property owners within the annexation area previously served by Fire District 41 will pay the regular levy rate of \$1.51182 and the excess levy of \$0.11402 to repay the District debt for a total of \$1.62584; 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 \$1.51182 only.

Levy Type	Pre-Annexation City	New Neighborhoods Previously Served by FD-41	New Neighborhoods Previously Served by Woodinville or Redmond
Regular Levy Rate	\$ 1.51182	\$ 1.51182	\$ 1.51182
Excess Levy Rate	\$ 0.04337	N/A	N/A
FD-41 Debt Levy	N/A	\$ 0.11402	N/A
Est. Final Levy Rate	\$ 1.55519	\$ 1.62584	\$ 1.51182

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 2015). A final levy will be prepared for Council approval at the December 9 regular meeting.

Preliminary Levy Recap:

	Amount
2014 Regular Levy	26,133,618
Optional 1 percent Increase	261,336
New Construction*	1,453,581
Other Adjustments^	48,855
Total Regular Levy	27,897,390
Excess Levy	569,990
Total 2014 Preliminary Levy	28,467,380

* 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 18 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 9 meeting.

ORDINANCE O-4464

AN ORDINANCE OF THE CITY OF KIRKLAND ESTABLISHING THE AMOUNT OF PROPERTY TAXES TO BE LEVIED FOR THE YEAR 2015, THE FIRST YEAR OF THE CITY OF KIRKLAND'S 2015-2016 FISCAL BIENNIUM.

WHEREAS, the City Council held a public hearing on September 16, 2014, to consider revenue sources for the 2015-2016 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 2015; 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 2015 is hereby fixed and established in the amount of \$27,897,390. This property tax levy represents a dollar increase of \$261,336 and a percentage increase of one percent from the previous year, excluding the addition of new construction, improvements to property, any increase in the value of state-assessed property, and administrative refunds as shown below:

	Amount
2015 Regular Levy	27,897,390
Less 2014 Levy	26,133,618
Less New Construction	1,453,581
Less Refunds	48,855
Total Increase	261,336
Percent Increase	1.00%

Section 2. There is hereby levied for 2015 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 \$569,990 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 _____, 2014.

Signed in authentication thereof this _____ day of _____, 2014.

MAYOR

Attest:

City Clerk

Approved as to Form:

City Attorney

ORDINANCE O-4465

AN ORDINANCE OF THE CITY OF KIRKLAND ESTABLISHING THE AMOUNT OF PROPERTY TAXES TO BE LEVIED FOR THE YEAR 2015, 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 \$2,930,287 as of December 31, 2014; 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 2015; 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 2015 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 _____, 2014

Signed in authentication thereof this _____ day of _____, 2014.

MAYOR

Attest:

City Clerk

Approved as to Form:

City Attorney