



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
George Dugdale, Budget Analyst

Date: November 12, 2013

Subject: **PRELIMINARY 2014 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 2014:

1. Ordinance 4425 establishing the preliminary regular levy for the City of Kirkland and the excess levy for the pre-annexation City; and
2. Ordinance 4426 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). A public hearing on the City's property tax levy is scheduled for November 19. Following the public hearing, the City Council will be asked to establish the City's preliminary property tax levy by adopting Ordinance 4425 and the levy to support annual debt service for the Fire District's outstanding consolidated fire station debt for 2014 by adopting Ordinance 4426.

The attached ordinances are required in order to meet the December 6 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 2014. 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 10 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 2013-2014 biennium. Accordingly, the attached ordinances establish levies for 2014, 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 4425 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 2014 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 2014 levy is the 2013 regular levy of \$25,526,169, which is comprised of four broad budget categories. 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 are added to the base levy.

Optional Levy Increase

The 2013-2014 Budget assumes the optional increase of one percent in 2014. In 2014, a one percent increase in the regular levy equates to \$255,261, which is split between the four budget categories as shown below.

Budget Category	2013 Amount	One Percent Increase	2014 Amount
General Fund & Street Fund	19,113,447	191,134	19,304,581
2002 Parks Maintenance Levy	1,225,186	12,252	1,237,438
2012 Streets Levy	2,907,300	29,073	2,936,373
2012 Parks Levy	2,280,236	22,802	2,303,038
Total	25,526,169	255,261	25,781,430

Levy Corrections

In some years corrections to the previous year's levy are made and the King County Assessor's Office relieves 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 2014, the Assessor will be relieving \$34,883 in refunds making the levy plus one percent amount for the City equal to \$25,816,313.

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 (\$1.79558 per \$1,000 of assessed valuation). The preliminary new construction valuation for the 2014 levy (as of November 12, 2013) is \$196,000,244 which translates into a new construction levy of \$351,934 ($\$196,000,244 / \$1,000 \times \1.79558). 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 2014 new construction levy of \$351,934 (as of November 12, 2013) is 1.84 percent of the total base regular levy for 2014.

For preliminary levy purposes, in the preliminary ordinance (O-4425) only, new construction valuation is shown at \$1,055,802, which is triple the November 12, 2013 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 12 figure of \$351,934. Once the final levy worksheet is received, staff will adjust the 2014 property tax levy accordingly and submit a final ordinance for Council approval on December 10, 2013.

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 12, 2013, as well as the amount (triple the Assessor's estimate) used in the preliminary ordinance (O-4425).

Budget Category	Levy with Optional One Percent Increase	Addition From New Construction	Assessor's Preliminary 2014 Levy
Base Levy (General Fund and Streets)*	19,339,464	286,913	19,626,378
2002 Parks Maintenance Levy	1,237,438	9,976	1,247,414
2012 Streets Levy	2,936,373	30,849	2,967,222
2012 Parks Levy	2,303,038	24,196	2,327,234
Subtotal	25,816,313	351,934	26,168,248
Artificially High New Construction Increment		703,868	
Total	25,816,313	1,055,802	26,872,115

*Base Levy includes the \$34,883 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 decrease in 2014 following the retirement of the 1992 Public Safety bonds and City Council's action to refinance the City's remaining voted debt. In 2013, the excess levy was \$732,055, based on the payment schedule for the outstanding voted debt; in 2014 this amount will be \$593,705. 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 \$0.05220.

Trends in Assessed Valuation

Assessed valuation is composed of new construction and revaluation of existing properties. Preliminary figures from King County dated, November 12, 2013, indicate that compared to 2013, total assessed valuation increased by 10.72 percent.

For estimating purposes, in the preliminary levy only, new construction valuation is shown at triple the November 2013 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

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

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 (\$1,055,802), 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 \$1.79558 per \$1,000 of assessed valuation in 2013 to \$1.70304 in 2014. The rate per \$1,000 decreases because the total assessed valuation (AV) for the City has increased by 10.72 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 \$0.07206 to \$0.05220 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	\$26,872,115	÷ \$15,778,967,625/1,000	\$1.70304
Excess Levy Rate	\$593,705	÷ \$11,374,081,527/1,000	\$0.05220

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 2014, 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 2014. This levy approved by Ordinance 4426 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 \$0.13712 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 2014 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	÷ \$3,501,810,740/1,000	\$0.13712

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 10):

1. Property owners within the pre-annexation City will pay the regular levy rate of \$1.70304 and the excess levy of \$0.05220 for a total of \$1.75524;
2. Property owners within the annexation area previously served by Fire District 41 will pay the regular levy rate of \$1.70304 and the excess levy of \$0.13712 to repay the District debt for a total of \$1.84016; 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 \$1.70304 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 2014). A final levy will be prepared for Council approval at the December 10 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	\$ 1.70304	\$ 1.70304	\$ 1.70304
Excess Levy Rate	\$ 0.05220	N/A	N/A
FD-41 Debt Levy	N/A	\$ 0.13712	N/A
Est. Prelim. Levy Rate	\$ 1.75524	\$ 1.84016	\$ 1.70304

Preliminary Levy Recap:

	Amount
2013 Regular Levy	25,526,169
Optional 1 percent Increase	255,261
New Construction*	1,055,802
Other Adjustments^	34,883
Total Regular Levy	26,872,115
Excess Levy	593,705
Total 2014 Preliminary Levy	27,465,820

* 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 19 is required in order to meet the King County deadline of December 6 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. The final levy will be brought forward for Council action at the December 10 meeting.

ORDINANCE O-4425

AN ORDINANCE OF THE CITY OF KIRKLAND ESTABLISHING THE AMOUNT OF PROPERTY TAXES TO BE LEVIED FOR THE YEAR 2014, THE SECOND YEAR OF THE CITY OF KIRKLAND'S 2013-2014 FISCAL BIENNIUM.

WHEREAS, the City Council held a public hearing on November 19, 2013, to consider revenue sources for the 2013-2014 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 2014; 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. Voters within the City of Kirkland, Washington, approved Proposition 1 – Levy for City Street Maintenance and Pedestrian Safety on November 6, 2012, an ongoing property tax levy lift.

Section 2. Voters within the City of Kirkland, Washington, approved Proposition 2 – Levy for City Parks Maintenance, Restoration, and Enhancement on November 6, 2012, an ongoing property tax levy lift.

Section 3. The regular property tax levy for the year 2012 is hereby fixed and established in the amount of \$26,869,595. This property tax levy represents a dollar increase of \$255,261 and a percentage increase of 1% from the previous year, including the levy lifts approved by voters on November 6, 2012, the addition of new construction, improvements to property, any increase in state-assessed property, and administrative refunds as shown below:

	Amount
2014 Regular Levy	26,872,115
Less 2013 Levy	25,526,169
Less New Construction	1,055,802
Less Refunds	34,883
Total Increase	255,261
Percent Increase	1.00%

Section 4. There is hereby levied for 2014 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 \$593,705 on the total of assessed valuation for such property.

Section 5. 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 _____, 2013.

Signed in authentication thereof this _____ day of _____, 2013.

MAYOR

Attest:

City Clerk

Approved as to Form:

City Attorney

ORDINANCE O-4426

AN ORDINANCE OF THE CITY OF KIRKLAND ESTABLISHING THE AMOUNT OF PROPERTY TAXES TO BE LEVIED FOR THE YEAR 2014, 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 \$4,000,000; 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 2014; 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 2013 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 _____, 2013

Signed in authentication thereof this _____ day of _____, 2013.

MAYOR

Attest:

City Clerk

Approved as to Form:

City Attorney