



**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  
Karen Terrell, Budget Analyst

**Date:** November 7, 2012

**Subject:** **PRELIMINARY 2013 PROPERTY TAX LEVY PUBLIC HEARINGS AND ADOPTION**

## RECOMMENDATION:

City Council conducts public hearings and adopts the following ordinances levying property taxes for the year 2013:

1. Ordinance 4385 establishing the preliminary regular levy for the City of Kirkland and the excess levy for the pre-annexation City; and
2. Ordinance 4386 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). Two separate public hearings are scheduled, the first relating to the City's levy and the second for the Fire District 41's levy. Following the public hearings, the City Council will be asked to establish the City's preliminary property tax levy by adopting Ordinance 4385. The Council will then be asked to support the levy for the annual debt service for the Fire District's outstanding consolidated fire station debt for 2013 by adopting Ordinance 4386.

The attached interim ordinances are required in order to meet the December 3<sup>rd</sup> 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 by the last week of November. 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 2013. 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 in late November and will be brought forward for adoption at the December 11<sup>th</sup> City Council meeting.

As in 2011, two separate ordinances are required because with annexation and the consequent assumption of Fire District 41, the City Council serves as the governing body for the District responsible for establishing the annual property tax levy to repay the consolidated fire station debt. The fire station-related levy will only apply to the properties within the area previously served by the District.

It should be noted that the property tax levies need to be established annually even though the Council will be adopting the budget for the 2013-2014 biennium. Accordingly, the attached ordinances establish levies for 2013 only.

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 4385 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 does not apply in the newly annexed areas), which funds debt service on voter-approved bonds.

##### *Regular Levy for City*

For 2013, there are three factors impacting the amount of the regular levy – the new construction levy, the optional increase and the voter approved permanent levy lifts.

##### 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> (\$1.36766 per \$1,000 of assessed valuation). The preliminary new construction valuation for the 2013 levy (as of November 5, 2012) is \$90,416,436 which translates into a new construction levy of \$123,659 ( $\$90,416,436 / \$1,000 \times \$1.36766$ ). 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 2013 new construction levy of \$123,659 (as of November 5, 2012) is 0.66 percent of the total base regular levy for 2013.

The attached ordinance establishing the City's property tax levy for 2013 includes new construction that is equivalent to 1.85 percent of the total 2012 regular levy or \$370,977, which is set artificially 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 later this month. Once the final levy worksheet is received, staff will adjust the 2013 property tax levy accordingly and submit a final ordinance for Council approval on December 11, 2012.

##### Optional Levy Increase

The 2013-2014 Budget assumes the optional increase of one percent in 2013, so the 2013 preliminary levy includes the one percent increase. Each one percent increase in the regular levy equates to about \$188,500 in new revenue to the General Fund and about \$12,100 in new revenue to the Parks Maintenance Fund, for a total of about \$200,600.

##### Voter Approved Permanent Levy Lift: Proposition - 1 and Proposition - 2

On November 6, 2012, Kirkland voters approved both propositions on the ballot, thereby, increasing annual funding for City streets and parks by adding a total of \$0.364 per \$1,000 of assessed valuation to the City's 2013 regular levy rate. The specific rates and potential levy amounts for both propositions are summarized below:

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<sup>1</sup> Levy rate per the Preliminary Levy Limit Worksheet from the King County Assessor's Office dated, November 5, 2012.

- **Proposition 1: Levy for City Street Maintenance and Pedestrian Safety** – This levy lift will fund arterial and neighborhood street re-pavement and repair, fund sidewalks around schools, enhance crosswalks, and allow for traffic safety measures in neighborhoods with an ongoing property tax levy of \$0.204 per \$1,000 of assessed valuation. Based on the preliminary assessed valuation as of November 5, 2012, and applying an artificially higher new construction assessed valuation for reasons explained earlier, the estimated 2013 levy for City Street Maintenance and Pedestrian Safety is \$2,943,085 for 2013.
- **Proposition 2: Levy for City Parks Maintenance, Restoration, and Enhancement** – This levy lift will fund preservation, maintenance, and enhancement to Kirkland's parks and natural areas with an ongoing property tax levy of \$0.16 per \$1,000 of assessed valuation. Based on the preliminary assessed valuation as of November 5, 2012, and applying an artificially higher new construction assessed valuation for reasons explained earlier, the estimated 2013 levy for City Parks Maintenance, Restoration, and Enhancement is \$2,308,302 for 2013.

The budgeted levy amounts for both propositions were based on the City's 2011 assessed valuation from the King County Assessor that was used for the 2012 tax roll. For purposes of estimating the potential 2013 levy from the propositions, no change in assessed valuation (AV) was assumed because the King County Assessor's Office had indicated that overall AV in King County would increase slightly, with rural AV declining and urban AV increasing. The preliminary data from the Assessor indicates a 2.9 percent decrease in Kirkland's assessed valuation resulting in estimated revenues that are lower than budgeted. The actual levy amounts could be different from the estimated amounts presented here.

In the case of these two propositions, the King County Assessor's Office will be determining the actual 2013 levy amount based on the levy rates approved by voters on November 6, 2012 and the final assessed valuation for the City when the tax roll is certified early next year. Posing the levy proposition question as a rate rather than a fixed dollar amount provided the City with the ability to realize revenue growth from new construction assessed value in the future, but made the total dollars in the first year variable based on changes in AV. Staff will bring forward for Council action any necessary budget adjustments related to the activities funded by the two propositions based on the Assessor's final levy amounts during the first quarter of 2013.

#### *Excess Levy for City*

The total excess levy for the City, which relates to voted debt, is decreasing from \$924,325 in 2012 to \$732,055 in 2013 based on the payment schedule for the outstanding voted debt. 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 \$0.07210.

#### *Trends in Assessed Valuation*

Assessed valuation is composed of new construction and revaluation of existing properties. Preliminary figures from King County dated, November 5, 2012, indicate that compared to 2011, total assessed valuation decreased by 2.14 percent and 4.76 percent for the pre-annexation City and the annexation area respectively. These decreases in assessed valuation are difficult to identify when assessed valuation is viewed in the aggregate, including changes due to annexation, new construction, and corrections and revaluations.

For the City as a whole, the 2.9 percent (\$426,004,358) decrease in total assessed valuation is comprised of a 0.62 percent increase due to new construction (\$90,416,436) and a 3.52 percent decrease due to revaluations (\$516,420,794). For estimating purposes, in the preliminary levy only, new construction valuation is shown at triple the November 5, 2012 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 2012 State utility assessed valuation, which has not been finalized yet.

The change in valuation does not cause revenue loss or 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.

Based on the preliminary levy worksheet, an intentionally high estimate for new construction (\$370,977) and the 1 percent optional increase, the regular levy tax rate for the City would increase from \$1.36766 per \$1,000 of assessed valuation in 2012 to \$1.80551 in 2013. The rate per \$1,000 increases because the total assessed valuation (AV) for the City has decreased by 2.9 percent over the same period and the voters increased the levy rate by approving Propositions 1 and 2. This rate applies to all parcels in Kirkland.

The excess levy rate, which applies to properties within the pre-annexation City boundaries, is decreasing from \$0.08976 to \$0.07210 based on the annual debt payment and decrease in assessed valuation in the pre-annexation portion of the City.

## **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 2013, 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 2013. This levy approved by Ordinance 4386 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 \$0.14580 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 2013 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.

## **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. Tax payers within the City's current boundaries will 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 11<sup>th</sup>):

1. Property owners within the existing (pre-annexation) City will pay the regular levy rate of \$1.80551 and the excess levy of \$0.07210 for a total of \$1.87761;
2. Property owners within the annexation area previously served by Fire District 41 will pay the regular levy rate of \$1.80551 and the excess levy of \$0.14580 to repay the District debt for a total of \$1.95131; 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 \$1.80551 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 2013). A final levy will be prepared for Council approval at the December 11<sup>th</sup> regular meeting.

*Preliminary Levy Recap:*

Base General Levy (2013)	\$	18,852,968
1% Optional Increase (General Levy)		188,530
Base Parks Maintenance Levy (2013)		1,210,092
1% Optional Increase (Parks Maint. Levy)		12,101
New Construction*		370,977
Other Adjustments^		19,186
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Subtotal	\$	20,653,854
Estimated Prop. 1 - 2012 Road Levy		2,943,085
Estimated Prop. 2 - 2012 Parks Levy		2,308,302
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Total Regular and Parks Maint. Levy		25,905,240
Excess Levy (for voted debt)		732,055
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<b>Total 2013 Preliminary Levy</b>	<b>\$</b>	<b>26,637,295</b>
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Separate Fire District 41 Debt Service Levy \$ 480,176

\* New construction levy is estimated at 1.85 percent over the current levy 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 20<sup>th</sup> is required in order to meet the King County deadline of December 3<sup>rd</sup> 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 11<sup>th</sup> meeting.

Attachments

**ORDINANCE O-4385**

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

WHEREAS, the City Council previously held a public hearing on September 18, 2012, 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 2013; 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 of 20.4 cents per \$1,000 of assessed value.

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 of 16 cents per \$1,000 of assessed value.

Section 3. The regular property tax levy for the year 2013 is hereby fixed and established in the amount of \$25,905,240. This property tax levy represents a dollar increase of \$5,842,180 and a percentage increase of 29.12% from the previous year, including the increase resulting from the addition of new construction, improvements to property, any increase in state-assessed property, increase from the voter approval of Propositions 1 and 2 on November 6, 2012, and administrative refunds as shown below:

	<b>Amount</b>	<b>% Increase (Decrease)</b>
2013 Regular Property Tax Levy	20,063,060	
Less: Prior Year Refund	0	
Plus: New Construction Levy	370,977	1.85%
Plus: Annexation Levy	0	0.00%
Plus: Refund Levy	70,010	0.35%
Plus: Property Tax Increase	200,631	1.00%
Less: Levy Corrections by King County	(50,824)	-0.25%
Subtotal	20,653,854	2.94%
Plus: Estimated Prop. 1 Levy for City Streets	2,943,085	14.67%
Plus: Estimated Prop. 2 Levy for Parks Maintenance	2,308,302	11.51%
<b>2013 Preliminary Regular Levy</b>	<b>25,905,240</b>	<b>29.12%</b>

Section 4. There is hereby levied for 2013 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 \$732,055 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 \_\_\_\_\_, 2012.

Signed in authentication thereof this \_\_\_\_\_ day of \_\_\_\_\_, 2012.

\_\_\_\_\_  
MAYOR

Attest:

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

Approved as to Form:

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

ORDINANCE O-4386

AN ORDINANCE OF THE CITY OF KIRKLAND ESTABLISHING THE AMOUNT OF PROPERTY TAXES TO BE LEVIED FOR THE YEAR 2013, 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 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 2013; 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 \_\_\_\_\_, 2012

Signed in authentication thereof this \_\_\_\_\_ day of \_\_\_\_\_, 2012.

\_\_\_\_\_  
MAYOR

Attest:

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City Clerk

Approved as to Form:

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City Attorney