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 25, 2014

Subject: **FINAL 2015 PROPERTY TAX LEVY**

RECOMMENDATION:

Council approves the attached ordinance, which repeals and replaces Ordinance 4464 approved on November 18, 2014 and establishes the final regular and excess property tax levy for the City of Kirkland for the 2015 fiscal year.

There is also a separate levy associated with Fire District 41 debt, which was adopted by Ordinance 4465 on November 18, 2014. That levy is unchanged and so Ordinance 4465 does not need replacement.

BACKGROUND DISCUSSION:

The attached ordinance reflects the final property tax levy data received from King County on December 2, 2015. This ordinance replaces the interim ordinance that was approved on November 18, 2014 in order to meet the County's deadline for 2015 levy information. As noted in the preliminary 2015 property tax levy memo, the initial levy was set intentionally high to ensure that the City would capture any additional new construction and state assessed valuation that was not recorded at the time of the preliminary levy.

The property tax levy needs to be established annually even though the Council will adopt a budget for the 2015-2016 biennium. Accordingly, the attached ordinance relates to 2015 only.

The following discussion explains how the final levy numbers were calculated for each of the variable factors in the City's levy.

1. REGULAR AND EXCESS LEVY FOR THE CITY OF KIRKLAND:

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 does not apply in the newly annexed areas).

Regular Levy for City

For 2015, there are two factors impacting the amount of the regular levy – the new construction levy and the optional increase.

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[1] ($1.65892 per $1,000 of assessed valuation). The final new construction valuation for the 2015 levy is $291,968,905 which translates into a new construction levy of $484,353 ($291,968,905/$1,000 x $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 $484,353 is 1.8 percent of the total base regular levy for 2015.

Optional Levy Increase

The 2015-2016 Budget assumes the optional increase of one percent in 2015, so the 2015 final levy includes the one percent increase. Each one percent increase in the regular levy equates to about $196,568 in new revenue to the General Fund; $12,374 in new revenue to the Parks Maintenance Fund; $29,364 in new revenue to the 2012 Street Levy Fund; and, $23,030 in new revenue to the 2012 Parks Levy Fund for a total of about $261,336.

Excess Levy for City

The total excess levy for the City, which relates to voted debt, is decreasing from $656,958 in 2014 to $569,990 in 2015 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 of $0.04336 per $1,000 assessed value.

Trends in Assessed Valuation

Assessed valuation is composed of new construction and revaluation of existing properties. Final figures from King County dated December 2, 2014, indicate that compared to 2014, total assessed valuation increased by 16.98 percent ($2,679,227,956). Of the total increase, 15.13 percent was from revaluations of existing properties ($18,161,619,058) and 1.85 percent was due to new construction ($291,968,905).

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.

Based on the final levy worksheet data for new construction ($484,353) and the 1 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 $1.45924 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. This rate applies to all parcels in Kirkland.

The excess levy rate, which only applies to properties within the pre-annexation City boundaries, is decreasing from $0.05773 to $0.04336 based on both the reduction in annual debt payment and the increase in assessed valuation in the pre-annexation portion of the City.

2. CONSOLIDATED FIRE STATION DEBT SERVICE LEVY

[1] Levy rate per the Final Levy Limit Worksheet from the King County Assessor's Office dated, December 2, 2014.

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 has set a levy of $480,176 ($470,572 ÷ 98 percent) to pay debt service in 2015 by adopting Ordinance 4465 on November 18, 2014. This levy amount remains unchanged, therefore a new ordinance is not necessary. The final levy rate may change slightly when King County finalizes the rate calculations in early 2015.

Based on the King County Assessor's final levy worksheet dated December 2, 2014 for Fire District 41, the total assessed valuation for the areas previously served by the District is $4,210,869,193. Therefore, the District's debt service levy of $480,176 translates to a rate per $1,000 assessed value of $0.11403 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.

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 current boundaries will have three separate levy rates based on their location:

1. Property owners within the existing (pre-annexation) City will pay the regular levy rate of $1.45924 and the excess levy of $0.04336 for a total of $1.50260;
2. Property owners within the annexation area previously served by Fire District 41 will pay the regular levy rate of $1.45924 and the excess levy of $0.11403 to repay the District debt for a total of $1.57327; 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 $1.45924 only.

The table below summarizes the changes in property tax rates between the preliminary and final property tax ordinances:

	Pre-Annexation City	**New Neighborhoods Previously Served by FD-41**	**New Neighborhoods Previously Served by Woodinville or Redmond**
Est. Prelim. Levy Rate (11/18/14)	$ 1.55519	$ 1.62584	$ 1.51182
Est. Final Levy Rate (**12/2/14**)	$ 1.50260	$ 1.57327	$ 1.45924
Difference	**$ (0.05259)**	**$ (0.05257)**	**$ (0.05258)**

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).

Final Levy Recap:

	Amount
2014 Regular Levy	26,133,618
Optional 1 percent Increase	261,336
New Construction	484,353
Other Adjustments^	48,855
Total Regular Levy	**26,928,162**
Excess Levy	569,990
Total 2015 Final Levy	**27,498,152**
Separate Fire District 41 Debt Service Levy	480,176

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

Attachments

ORDINANCE O-4468

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 AND REPEALING ORDINANCE 4464.

WHEREAS, the City Council previously 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, on November 18, 2014, the City Council passed Ordinance 4464 which was the preliminary property tax levy; and

WHEREAS, the City Council wishes to repeal the preliminary property tax levy and pass the final tax levy based upon the most recent property tax levy data provided by King County; 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. Ordinance 4464 passed November 18, 2014, is hereby repealed.

Section 2. The regular property tax levy for the year 2015 is hereby fixed and established in the amount of $26,928,162. This property tax levy represents a dollar increase of $261,336 and a percentage increase of 1.0% percent from the previous year, excluding the addition of new construction, improvements to property, any increase in state-assessed property, and administrative refunds as shown below:

	Amount
2015 Regular Levy	**26,928,162**
Less 2013 Levy	26,133,618
Less New Construction	484,353
Less Refunds	48,855

Total Increase	**261,336**
Percent Increase	**1.00%**

Section 3. 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 4. 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