



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

Date: November 30, 2012

Subject: **FINAL 2013 PROPERTY TAX LEVY**

RECOMMENDATION:

Council approves the attached ordinance, which repeals and replaces Ordinance 4385 approved on November 20, 2012 and establishes the final regular and excess property tax levy for the City of Kirkland for the 2013 fiscal year.

The separate levy amount associated with Fire District 41 debt, which was adopted by Ordinance 4386 on November 20, 2012, is unchanged and so Ordinance 4386 does not need replacement.

BACKGROUND DISCUSSION:

The attached ordinance reflects the final property tax levy data received from King County on November 29, 2012. This ordinance replaces the interim ordinance that was approved on November 20, 2012 in order to meet the County's deadline for 2013 levy information. As noted in the preliminary 2013 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 2013-2014 biennium. Accordingly, the attached ordinance relates to 2013 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 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 rate¹ (\$1.36766 per \$1,000 of assessed valuation). The final new construction valuation for the 2013 levy is \$91,011,395 which translates into a new construction levy of \$124,473 ($\$91,011,395 / \$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 \$124,473 is 0.62 percent of the total base regular levy for 2013.

Optional Levy Increase

The 2013-2014 Budget assumes the optional increase of one percent in 2013, so the 2013 final 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 levy amounts for both propositions are summarized below:

- **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 final assessed valuation, the 2013 levy for City Street Maintenance and Pedestrian Safety is \$2,907,300 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 final assessed valuation, the 2013 levy for City Parks Maintenance, Restoration, and Enhancement is \$2,280,236 for 2013.

The Preliminary 2013-2014 Budget included levy amounts for both propositions 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 final data from the Assessor indicates a 2.87 percent decrease in Kirkland's assessed valuation resulting in revenues that are lower than budgeted.

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. The 2013-2014 Budget and the 2013-18 CIP being adopted by Council on December 11, 2012 include changes in funding to reflect the final property tax data from the King County Assessor's Office dated, November 29, 2012.

¹ Levy rate per the Final Levy Limit Worksheet from the King County Assessor's Office dated, November 29, 2012.

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 \$0.07204.

Trends in Assessed Valuation

Assessed valuation is composed of new construction and revaluation of existing properties. Final figures from King County dated, November 29, 2012, indicate that compared to 2011, total assessed valuation decreased by 2.07 percent for the pre-annexation City and 4.80 percent for the annexation area, resulting in a composite decrease of 2.87 percent. 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 2.87 percent (\$420,584,930) decrease in total assessed valuation is comprised of a 0.62 percent increase due to new construction (\$91,011,395) and a 3.49 percent decrease due to revaluations (\$511,596,325).

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 (\$124,473), the levy lift from Propositions 1 and 2 (\$5,187,536) 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 \$1.79595 in 2013. The rate per \$1,000 increases because the total assessed valuation (AV) for the City has decreased by 2.87 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 \$0.07204 based on the reduction in annual debt payment and offset in part by 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 has set a levy of \$480,176 ($\$470,572 \div 98$ percent) to pay debt service in 2013 by adopting Ordinance 4386 on November 20, 2012. This levy *amount* remains unchanged, therefore a new ordinance is not necessary. The levy *rate* will change slightly.

Based on the King County Assessor's final levy worksheet dated November 28, 2012 for Fire District 41, the total assessed valuation for the areas previously served by the District is \$3,283,295,603. Therefore, the District's debt service levy of \$480,176 translates to a rate per \$1,000 assessed value of \$0.14625 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. 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 \$1.79595 and the excess levy of \$0.07204 for a total of \$1.86799;
2. Property owners within the annexation area previously served by Fire District 41 will pay the regular levy rate of \$1.79595 and the excess levy of \$0.14625 to repay the District debt for a total of \$1.94220; 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 \$1.79595 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 (11/20/12)	\$ 1.87761	\$ 1.95131	\$ 1.80551
Est. Final Levy Rate (11/29/12)	\$ 1.86799	\$ 1.94220	\$ 1.79595
Difference	\$ (0.00962)	\$ (0.00911)	\$ (0.00956)

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).

Final 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		124,473
Other Adjustments [^]		19,186
Subtotal	\$	20,407,350
Estimated Prop. 1 - 2012 Road Levy		2,907,300
Estimated Prop. 2 - 2012 Parks Levy		2,280,236
Total Regular and Parks Maint. Levy		25,594,886
Excess Levy (for voted debt)		732,055
Total 2013 Final Levy	\$	26,326,941

Separate Fire District 41 Debt Service Levy	\$	480,176
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[^] Other adjustments include re-levy for prior-year refunds and any levy corrections or omissions.

Attachment

ORDINANCE O-4397

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 AND REPEALING ORDINANCE 4385.

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, on November 20, 2012, the City Council passed Ordinance 4385 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 4385 passed November 20, 2012, is repealed.

Section 2. 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 of 20.4 cents per \$1,000 of assessed value.

Section 3. 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 4. The regular property tax levy for the year 2012 is hereby fixed and established in the amount of \$25,594,886. This property tax levy represents a dollar increase of \$149,807 and a percentage increase of 0.75% from the previous year, excluding the increase resulting from the levy lifts, the addition of new construction, improvements to property, any increase in state-assessed property, and administrative refunds as shown below:

	Amount
2013 Regular Levy	25,594,886
Less 2011 Levy	20,063,060
Less New Construction	124,473
Less Levy Lifts	5,187,536
Less Refunds	70,010
Total Increase	149,807
Percent Increase	0.75%

Section 5. 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 6. 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