



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 30, 2011

Subject: **FINAL 2012 PROPERTY TAX LEVY**

RECOMMENDATION:

Council approve the attached ordinance, which repeals Ordinance 4327 approved on November 15, 2011 and establishes the final regular and excess property tax levy for the City of Kirkland for 2012 fiscal year.

BACKGROUND DISCUSSION:

The attached ordinance reflects the final property tax levy data received from King County on November 22, 2011. This ordinance replaces ordinance 4327, which was approved on November 15, 2011 in order to meet the County's deadline for 2012 levy information. As noted in the preliminary 2012 property tax levy memo, the initial levy was set intentionally high to ensure that the City would capture any additional new construction, annexation, and state assessed valuation that were not recorded at the time of the preliminary levy.

The following discussion explains how the final levy numbers were calculated for each of the variable factors in the levy. There are two components to the 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). In addition, there is a separate levy associated with Fire District 41 debt, which was adopted by ordinance 4328 and is unchanged.

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

Regular Levy for City

For 2012, there are three factors impacting the amount of the regular levy – the new construction levy, the annexation 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 rate¹ (\$1.30134 per \$1,000 of assessed valuation). The final new construction valuation for the 2012 levy is \$90,926,847 (\$50,681,534 in local new construction and \$40,245,313 in utility value), which translates into a new construction levy of \$118,327 ($\$90,926,847 / \$1,000 \times \1.30134). 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 2012 new construction levy of \$118,327 is 0.85 percent of the total base regular levy for 2012.

Annexation Levy

In addition to new construction, the City's regular levy has increased to reflect the new properties added to the City's tax rolls by the Juanita, Finn Hill and Kingsgate annexation. The amount of annexation levy added to the property taxes received by the City is determined by the King County Assessor's Office and is based on the existing (pre-annexation) City's levy limit and assessed value, which determines the applicable annexation levy rate. Multiplying the annexation levy rate by the annexation area assessed value divided by \$1,000 yields the annexation levy for 2012. Based on the King County Assessor's data as of November 22, 2011, the increased assessed valuation is \$4,296,674,002 which results in an additional levy amount of \$5,860,679. The 2011-12 Budget included an annexation levy of \$5,638,324 for 2012. Based on the current information from the County Assessor's Office, the City will realize an additional \$222,355 in property tax revenues from the annexation area, which will help offset shortfalls in utility tax collections in the newly annexed areas.

Optional Levy Increase

The 2011-2012 Budget assumes the optional increase of one percent in 2012, which applies to the pre-annexation area levy amount. Each one percent increase in the regular levy equates to about \$131,000 in new revenue to the General Fund and about \$8,400 in new revenue to the Parks Maintenance Fund, for a total of about \$139,400.

Excess Levy for City

The total excess levy for the City, which relates to voted debt, is increasing slightly from \$913,986 in 2011 to \$924,325 in 2012 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 (\$10,375,382,827). This translates to a rate per \$1,000 assessed value of \$0.08909.

Trends in Assessed Valuation

Assessed valuation is composed of new construction and revaluation of existing properties. Final figures from King County dated, November 22, 2011, indicate that compared to 2010, total assessed valuation decreased by 3.5 percent in the pre-annexation City and 5.7 percent in the newly annexed areas. These decreases in assessed valuation are offset by other changes to assessed valuation, including annexation, new construction, and corrections.

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

For the City as a whole, total assessed valuation increased by 37 percent or \$3,962,105,946 comprised of a 0.85 percent increase due to new construction (\$90,926,847), a 40.12 percent increase due to annexation valuation (\$4,296,674,002), and a 3.97 percent decrease due to revaluations (\$425,494,903).

Based on the final levy worksheet data for new construction (\$118,327), the annexation levy (\$5,860,679), and the 1 percent optional increase, the regular levy tax rate for the existing (pre-annexation) City increases from \$1.30134 per \$1,000 of assessed valuation in 2011 to \$1.36744 in 2012. The rate per \$1,000 increases because the total assessed valuation (AV) for the existing (pre-annexation) City has decreased by 3.5 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 increasing from \$0.08534 to \$0.08909 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 2012, 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 2012 by adopting Ordinance 4328 on November 15, 2011.

Based on the King County Assessor's final levy worksheet dated November 22, 2011 for Fire District 41, the total assessed value for the areas previously served by the District is \$3,425,655,235. Therefore, the District's debt service levy of \$480,176 translates to a rate per \$1,000 assessed value of \$0.14017 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 2012 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 new 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 \$1.36744 and the excess levy of \$0.08909 for a total of \$1.45653;
2. Property owners within the annexation area previously served by Fire District 41 will pay the regular levy rate of \$1.36744 and the Fire District debt levy of \$0.14017 for a total of \$1.50761; 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 \$1.36744 only.

While the total dollar amount of the levy is fixed, the final rate per \$1,000 of AV can change slightly based on the final AV at the time King County finalizes the levy rates (in early 2012).

Final Levy Recap:

Base General Levy (2012 Rate)	\$	13,097,711
1% Optional Increase (General Levy)		130,977
Base Parks Maintenance Levy (2012)		840,687
1% Optional Increase (Parks Maint. Levy)		8,407
Annexation Levy		5,860,679
New Construction and Other Adjustments*		124,599
Total Regular and Parks Maint. Levy	\$	20,063,060
Excess Levy (for voted debt)		924,325
Total 2012 Final Levy	\$	20,987,385
Separate FD-41 Debt Service Levy	\$	480,176

*Prior-year adjustments include new construction levy, re-levy for prior-year refunds, and any levy corrections or omissions.

Please note that the ordinance table has been modified to calculate the net levy increase percentage consistent with King County methodology.

ORDINANCE O-4339

AN ORDINANCE OF THE CITY OF KIRKLAND ESTABLISHING THE AMOUNT OF PROPERTY TAXES TO BE LEVIED FOR THE YEAR 2012, THE SECOND YEAR OF THE CITY OF KIRKLAND'S 2011-2012 FISCAL BIENNIUM AND REPEALING ORDINANCE 4327.

WHEREAS, the City Council previously held a public hearing on November 15, 2011, to consider revenue sources for the 2011-2012 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 2012; 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 15, 2011 the City Council passed Ordinance 4327 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 4327 passed November 15, 2011, is hereby repealed.

Section 2. The regular property tax levy for the year 2012 is hereby fixed and established in the amount of \$20,063,060. This property tax levy represents a dollar increase of \$95,336 and a percentage increase of 0.68% from the previous year, excluding the increase resulting from annexation of the North Juanita, Finn Hill, and Kingsgate neighborhoods, the addition of new construction, improvements to property, any increase in state-assessed property, and administrative refunds as shown below:

	Amount
2012 Regular Levy	20,063,060
Less 2011 Levy	13,938,398
Less New Construction	118,327
Less Annexation	5,860,679
Less Refunds	50,320
Total Increase	95,336
Percent Increase	0.68%

Section 3. There is hereby levied for 2012 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 \$924,325 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 _____, 2011.

Signed in authentication thereof this _____ day of _____, 2011

MAYOR

Attest:

City Clerk

Approved as to Form:

City Attorney