



CITY OF KIRKLAND
Department of Finance
123 Fifth Avenue, Kirkland, WA 98033 425.828.1100
www.ci.kirkland.wa.us

MEMORANDUM

To: David Ramsay, City Manager

From: Tracey Dunlap, Director of Finance and Administration

Date: November 14, 2006

Subject: **PRELIMINARY 2007 PROPERTY TAX LEVY**

RECOMMENDATION:

Council approve the attached interim ordinance levying property taxes for the year 2007 and the attached resolution to bank property tax capacity in the event that Initiative 747 (I-747) is found to be unconstitutional.

POLICY IMPLICATIONS:

1. The City Council must adopt a property tax levy to forward to King County no later than November 30, 2006.
2. Ordinances authorizing revenues for the coming year's budget should be adopted prior to adoption of the budget.
3. The City Council held a public hearing on revenue sources on September 19, 2006.
4. If the Washington Supreme Court finds I-747 unconstitutional, additional property tax capacity would be available to the City.

BACKGROUND DISCUSSION:

The attached interim ordinance is required in order to meet the November 30th deadline established by the King County Council for submission of levy amounts. Each year the County prepares a levy worksheet for cities 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 worksheet is received. The County estimates that the levy worksheets will be available either by the last week of November or the first week of December. Since November 21st is the last regular Council meeting before the November 30th deadline, a preliminary ordinance needs to be passed that establishes the maximum amount of property taxes the City expects to levy in 2007. 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 initial property tax levy is typically higher than the final levy will be. The final levy will be calculated when the Council completes its budget deliberations and the City receives its final levy worksheet from King County.

It should be noted that the property tax levy still needs to be established annually even though the Council will be adopting a budget for the 2007-2008 biennium. Accordingly, the attached ordinance relates to 2007 only. The following discussion explains how the preliminary 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.

Regular Levy

For 2007, there are three factors impacting the amount of the regular levy – the new construction levy, the optional increase, and the banked capacity.

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 quotient by the current year's regular levy tax rate (\$1.32 per \$1,000 of assessed valuation). The following table shows new construction growth trends (as a percentage of each year's total regular levy and as a levy amount) for the past seven years and the projected growth for 2007:

<i>Levy Year</i>	<i>% Increase</i>	<i>New Construction Levy</i>
2000	2.34%	\$185,860
2001	2.53%	\$208,632
2002	2.94%	\$250,496
2003	1.56%	\$136,590
2004	1.36%	\$132,113
2005	1.70%	\$170,575
2006	2.86%	\$273,577
2007 (Est.)	3.94%	\$427,567 (new construction as of 11/1/06)

The preliminary new construction valuation for the 2007 levy is \$323,033,113, which translates into a new construction levy of \$427,567 ($\$323,033,113 / \$1,000 \times \1.3236). Relative to the 2007 total regular levy of \$10,861,816, this represents an increase of 3.94%. The attached preliminary ordinance includes new construction that is equivalent to 8.0% of the total 2007 regular levy or \$869,000, which is intentionally 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 in December. Once the final levy worksheet is received, staff will adjust the 2007 property tax levy accordingly and submit a final ordinance for Council approval on December 12, 2006.

Optional Levy Increase

The 2007-2008 Preliminary Budget assumes an optional increase of one percent in each year, so the 2007 preliminary levy includes the one percent increase. Each one percent increase in the regular levy equates to almost \$109,000 in new revenue to the General Fund and about \$7,000 in new revenue to the Parks Maintenance Fund, for a total of \$116,000.

Banked Capacity

The law also allows the use of "banked" capacity, which is the amount of unused optional increases that have accumulated over the years. The original 2007-2008 Preliminary Budget recommended use of \$275,000 per year of the banked capacity to fund the addition of four Corrections Officers. However, the Council provided direction at the November 9th study session to modify the Preliminary Budget to utilize increased property tax due to new construction (as described earlier in this document) to fund these Corrections Officers and to use banked capacity to fund an additional Corrections Officer and a Communications Coordinator (\$162,400). The City will have approximately \$190,000 of available banked capacity after this recommended use.

Also attached is a resolution providing for the banking of the maximum amount of levy capacity pursuant to RCW 84.55.0101 and .092 in the event that the Washington Supreme Court finds Initiative 747 unconstitutional. If that occurs, this action ensures the City's ability to provide funding for current and future operating costs from the highest lawful levy as calculated under the statute before I-747 was adopted.

Excess Levy

The total excess levy, which relates to voted debt, is increasing slightly from \$1,449,146 in 2006 to \$1,465,678 in 2007. This translates to a rate per \$1,000 assessed value of \$0.148.

Trends in Assessed Valuation

Growth in assessed valuation is composed of new construction and revaluation of existing properties. Preliminary figures from King County dated 11/1/06, indicate that the City's total assessed valuation increased by 12.75% with 3.69% due to new construction and 9.07% due to revaluations. For estimating purposes only, new construction valuation is shown at roughly double the 11/1/06 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 state assessed valuation, which has not been finalized yet.

The increase in valuation does not in itself generate additional revenue for the City. If the Council takes no optional increase in the levy and the assessed valuation increases, it has the effect of lowering the rate applied to each \$1,000 of assessed valuation.

Based on the preliminary levy worksheet, an intentionally high estimate for new construction (\$869,000), and use of \$162,400 banked capacity, the overall tax rate (regular levy only) would decrease from \$1.323 per \$1,000 of assessed valuation in 2006 to \$1.253 in 2007. A final levy and rate will be prepared for Council approval at their December 12th regular meeting.

Preliminary Levy Recap:

Base General Levy (2006 Rate)	\$10,861,816
1% Optional Increase (General Levy)	108,618
Optional Banked Capacity	162,400
Base Parks Maintenance Levy (2006)	732,366
1% Optional Increase (Parks Maint. Levy)	7,324
New Construction and Prior Yr. Adjustments*	<u>917,262</u>
Total Regular and Parks Maint Levy	\$12,789,786
Excess Levy (for voted debt)	<u>1,465,678</u>
Total 2007 Preliminary Levy	<u>\$14,255,464</u>

*New construction levy is estimated at 8.0% over the current levy and will be reduced to the actual new construction allowance when final information is received from King County. The estimated refund levy for 2007 is \$48,262.

CITY OF KIRKLAND
2007 PROPERTY TAX DISTRIBUTION (PRELIMINARY LEVY)

Taxable Assessed Valuation For 2007 Levy		\$10,211,294,336
REGULAR LEVY		
Operating Fund	Levy	Rate per \$1,000 AV
General Fund	\$9,244,463	\$0.905
Street Operating Fund	\$2,790,985	\$0.273
Parks Maintenance Fund	\$754,338	\$0.074
Total 2006 Regular Levy	\$12,789,786	\$1.253
EXCESS LEVY		
Unlimited General Obligation Bond Issue	Levy	Rate per \$1,000 AV
1993 Unlimited G.O. Refunding (Parks)	\$548,530	\$0.054
1995 Unlimited G.O. (Public Safety)	\$91,188	\$0.009
2001 Unlimited G.O. Refunding (Public Safety)	\$192,475	\$0.019
2003 Unlimited G.O. (Parks)	\$633,485	6.20%
Total 2006 Excess Levy	\$1,465,678	\$0.144
TOTAL LEVY		
	Levy	Rate per \$1,000 AV
Total 2006 Levy	\$14,255,464	\$1.396

ORDINANCE 4071

AN ORDINANCE LEVYING THE TAXES FOR THE CITY OF KIRKLAND, WASHINGTON, FOR THE YEAR 2007.

WHEREAS, the City Council held a public hearing on September 19, 2006, to consider revenue sources for the 2007-2008 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 2007; 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. The regular property tax levy for the year 2007 is hereby fixed and established in the amount of \$12,789,786.

	<u>2006</u>	<u>2007</u>	Increase/ (Decrease)
Assessed Valuation	\$ 8,760,457,455	\$10,211,294,336	\$ 1,450,836,881
Base Levy	\$ 9,550,083	\$ 10,861,816	\$ 1,311,733
Optional Increase on Base Levy			
–Dollars	\$ 95,501	\$ 108,618	\$ 13,117
–Percent	1.00%	1.00%	0.00%
Parks Maintenance Levy	\$ 725,115	\$ 732,366	\$ 7,251
Optional Increase on Parks Maintenance Levy			
–Dollars	\$ 7,251	\$ 7,324	\$ 73
–Percent	1.00%	1.00%	0.00%
Optional Banked Capacity	910,000 8.86%	162,400 1.40%	(747,600) (7.46%)
Prior Year Levy Adjustments and New Construction	<u>\$ 306,232</u>	<u>\$ 917,262</u>	<u>\$ 611,030</u>
Total Regular Levy in Dollars	\$ 11,594,182	\$ 12,789,786	\$ 1,195,604
Rate per \$1,000 of Assessed Valuation	\$ 1.323	\$ 1.253	\$ (0.071)

Section 2. The special tax levies, as heretofore approved by the voters of the City of Kirkland, as to the following general obligation bonds are hereby fixed and established as follows:

<u>Kirkland Taxing Limit #0 and #6</u>	<u>Levy Amount</u>
1993 Unlimited Refunding	548,530
1995 Unlimited Public Safety	91,188
2001 Unlimited Refunding	192,475
2003 Unlimited Parks	<u>633,485</u>
Total Excess Levy	1,465,678

Section 3. 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 _____, 2006.

Signed in authentication thereof this _____ day of _____, 2006.

MAYOR

Attest:

City Clerk

Approved as to Form:

City Attorney

RESOLUTION R-4614

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND PROVIDING FOR THE BANKING OF LEVY CAPACITY PURSUANT TO RCW 84.55.092.

WHEREAS, on June 13, 2006, the King County Superior Court ruled that Initiative 747 ("I-747") is unconstitutional; and

WHEREAS, on August 18, 2006, the Washington State Supreme Court granted a stay of the effect of this ruling pending appeal; and

WHEREAS, if the Washington State Supreme Court were to uphold the ruling, the maximum limit factor under Chapter 84.55 RCW would return to 6% (from 1%) and the City's highest lawful levy would be calculated under the statute as it existed before I-747 was adopted; and

WHEREAS, the City Council finds that the need to provide funding for operating costs of new facilities, to maintain levels of service for current residents and, in the event of annexation, new residents, and to meet a potential future economic downturn creates a substantial need to set the levy limit at the maximum permitted under RCW 84.55.0101 and .092, as determined by the Washington State Supreme Court, and

WHEREAS, it is the intent of the City Council to bank the maximum amount of levy capacity available to it as a result of the Supreme Court's decision;

NOW, THEREFORE, be it resolved by the City Council of the City of Kirkland as follows:

Section 1. The City Council has determined that due to substantial need, it is the best interest of the City of Kirkland to increase the biennial budget by 7.98% in 2007-2008 compared to the 2005-2006 budget as of June 30, 2006 and to set the levy limit at the maximum allowable under RCW 84.55.0101, as determined by the Washington Supreme Court, to ensure adequate funding for this purpose in future years.

Section 2. The City Clerk is directed to certify to the King County Assessor, no later than November 30, 2006, a copy of this resolution showing its adoption; and to perform such other duties as are necessary or required by law to the end that the maximum levy capacity available to the City of Kirkland under Chapter 84.55 RCW, as determined by the Washington Supreme Court, is banked for future years.

Passed by majority vote of the Kirkland City Council in open meeting this ____ day of _____, 2006.

Signed in authentication thereof this ____ day of _____, 2006.

MAYOR

Attest:

City Clerk