



CITY OF KIRKLAND
Department of Finance & Administration
123 Fifth Avenue, Kirkland, WA 98033 425.587.3100
www.kirklandwa.gov

MEMORANDUM

To: Kurt Triplett, City Manager

From: Michael Olson, Director of Finance & Administration
Sri Krishnan, Deputy Director of Finance & Administration
Chip Corder, Temporary 2021-2022 Budget Development Staff

Date: December 1, 2020

Subject: **FINAL 2021 PROPERTY TAX LEVY**

RECOMMENDATION:

Approve the attached Ordinance O-4746, which repeals and replaces Ordinance O-4742, which was approved on November 17, 2020, and establish the final regular and excess property tax levies for the City of Kirkland for the 2021 fiscal year.

There is also a separate levy associated with Fire District 41 debt, which was adopted by Ordinance O-4743 on November 17, 2020. Because that levy is unchanged, Ordinance O-4743 does not need to be repealed and replaced.

BACKGROUND DISCUSSION:

The attached ordinance reflects the final property tax levy data received from King County on December 1, 2020. This ordinance replaces the interim ordinance that was approved on November 17, 2020 in order to meet the County's deadline for 2021 levy information. As noted in the preliminary 2021 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 adopts a budget for both years of the 2021-2022 biennium. Accordingly, the attached ordinance relates to 2021 only.

The following discussion explains how the final levy numbers were calculated for each of the components of the City's 2021 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 areas annexed in 2011).

Regular Levy for City

For 2021, there are four factors impacting the amount of the regular levy: 1) optional levy increase, 2) prior year levy corrections, 3) new construction, and 4) 2020 Fire & Emergency Medical Services Levy Lid Lift, which was approved by voters on November 3, 2020.

Optional Levy Increase

The preliminary 2021 property tax levy adopted by Council on November 17, 2020 included a 1.0 percent optional increase consistent with the 2021-2022 Preliminary Budget. Because inflation, as measured by the implicit price deflator, was only 0.602 percent on August 27, 2020, the Council adopted Resolution R-5451 on November 17, 2020, which made a finding of "substantial need" to increase the levy limit factor for the 2021 regular levy from 100.602 percent to 101 percent. In other words, this action allowed the Council to increase the 2021 regular property tax levy by 1.0 percent, or \$313,330, excluding new construction.

Prior Year Levy Corrections

Each year's property tax levy typically includes minor corrections to the prior year's levy, which are made by the County Assessor. They mostly encompass property tax refunds for property valuation errors. These refunds, which reduce the total levy amount remitted to the City, are re-levied by the County Assessor in the following year, because the City is entitled to the total levy amount. This re-levied amount is in addition to the 1.0% optional increase (RCW 84.69.020). In 2021, the County Assessor will be re-levying \$16,430 in prior year corrections.

New Construction

The construction of new buildings and additions to existing structures generates new property tax revenue for the City, which is paid by the property owners of the new construction. 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 (\$0.99438 per \$1,000 of assessed valuation). The final new construction valuation for the 2021 levy is \$612,347,764, which corresponds to a new construction levy of \$608,906 ($\$612,347,764 \div \$1,000 \times \0.99438). Over the past five years, the new construction levy as a percentage of each year's base regular levy has ranged between 1.52 percent and 2.85 percent. The final 2021 new construction levy of \$608,906 represents a 1.94 percent increase over the 2021 base regular levy of \$31,332,962 (which equals the 2020 total regular levy less the \$23,108 prior year levy correction).

As the final property tax levy cannot exceed the amount stated in the preliminary levy, 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 was adopted by the Council.

2020 Fire & Emergency Medical Services Levy Lid Lift

This ballot measure, which was approved by voters on November 3, 2020, will stockpile pandemic personal protection equipment for first responders; add twenty additional firefighter/emergency medical technicians to improve response times; build a new Fire Station 27 in Totem Lake; and provide for the seismic renovation and modernization of Fire Station 21 in Forbes Creek, Fire Station 22 in Houghton, and Fire Station 26 in Rose Hill.

In the preliminary 2021 property tax levy memo, staff noted that there was a difference in interpretation between the City and the King County Department of Assessments on how the senior property tax exemption applies to the levy lid lift. This was resolved by the Washington State Department of Revenue, with the calculation of the 2021 levy amount (\$7,259,770) falling between what the City expected and what the Department of Assessments determined (see table below).

2021 Non-Exempt Levy:	
Total Non-Exempt AV	\$32,058,140,263
Levy Rate per \$1,000 AV (maximum rate noted in ballot measure)	\$1.22951
Non-Exempt Levy	\$39,415,804
2021 Senior Exempt Levy:	
Total Senior Exempt AV	\$114,829,040
Levy Rate per \$1,000 AV (excludes Fire & EMS levy lid lift)	\$1.00666
Senior Exempt Levy	\$115,594
2021 Total Regular Levy	\$39,531,398
Less Allowable Levy Without Fire & EMS Levy Lid Lift	-\$32,271,628
2021 Fire & EMS Levy Lid Lift	\$7,259,770

The corresponding levy rate is \$0.22646 per \$1,000 assessed valuation.

Excess Levy for Pre-Annexation City

The excess levy in 2021, which relates to voted debt incurred by the City prior to the 2011 annexation, is \$565,070, which is \$2,190 less than the 2020 excess levy. This corresponds to a levy rate of \$0.02427 per \$1,000 assessed valuation. The 2021 levy amount is tied to the payment schedule on the outstanding bonds and applies only to the residents within the City's pre-annexation boundaries (annexation voters did not approve the assumption of voted bond indebtedness). The last year of the excess levy will be 2022, which is when the voted debt will be fully paid off.

Assessed Valuation

Assessed valuation encompasses existing properties, which are re-valued annually, and new construction. The final 2021 total assessed valuation for Kirkland is \$32,058,140,263, which is 1.69 percent higher than 2020. This includes new construction, which represents a 1.94 percent increase over the 2020 total assessed valuation. As a result, existing properties experienced an overall decrease in total assessed valuation of 0.25 percent relative to 2020.

Excluding new construction, an increase in total assessed valuation on existing properties does not generate additional revenue for the City. Only a new voter approved levy, the 1% optional increase, which must be approved by the City Council, and new construction can generate new property tax revenue for the City. When the City's total assessed valuation increases, the City's

levy rate correspondingly decreases so that the City does not collect more than the lawfully allowable levy amount. The reverse is also true. When the City's total assessed valuation decreases, the levy rate correspondingly increases, but no additional revenue is generated.

2021 Levy Rates

Due to the passage of the 2020 Fire & Emergency Medical Services Levy Lid Lift, the regular levy tax rate is increasing from \$0.99438 to \$1.22951 per \$1,000 of assessed valuation in 2021. Qualifying seniors are exempt from this levy lid lift and will be subject to a regular levy rate of \$1.00666 per \$1,000 of assessed valuation.

The excess levy rate, which applies to properties within the pre-annexation boundaries, is decreasing from \$0.02483 to \$0.02427 due to the assessed valuation increase to the pre-annexation portion of the City.

2. FIRE DISTRICT 41 DEBT SERVICE LEVY

When the annexation of the Juanita, Finn Hill, and Kingsgate neighborhoods became effective on June 1, 2011, Fire District 41, which served most of that area, was assumed by the City. The District's outstanding debt remains in place until it is retired in December 2021. With the assumption of the District, the City Council serves as the governing body with the authority to levy taxes to pay the debt service on the outstanding bonds, which amounts to \$470,572 in 2021. Since King County has a 98 percent collection rate on tax levies, the City is levying \$480,176 (\$470,572 / 98%) in 2021 to ensure that enough is collected to pay the debt service.

Ordinance O-4743, which was adopted by the Council on November 17, 2020, establishes a levy of \$480,176 for the areas previously served by Fire District 41. This translates to a levy rate of \$0.07026 per \$1,000 of assessed valuation based on the final 2021 total assessed valuation for these areas (\$6,834,490,339), which increased 0.92 percent relative to 2020. Because there is no change to the levy, Ordinance O-4743 does not need to be repealed and replaced. Annexation area residents previously served by Fire District 41 will be subject to an estimated 2021 total levy rate of \$1.29977, which consists of the City's estimated 2021 regular levy rate of \$1.22951 plus the Fire District's 2021 levy rate of \$0.07026.

3. SUMMARY

The table below compares the City's final 2021 levy (Ordinance O-4746) to the preliminary 2021 levy (Ordinance O-4742). Note that the reductions to the final 2021 levy relate to new construction and the 2020 Fire & EMS levy lid lift.

2021 Levy Components	Preliminary 2021 Levy (O-4742)	Final 2021 Levy (O-4746)	Difference
Regular Levy:			
Base Levy	31,332,962	31,332,962	0
Optional Levy Increase (1%)	313,330	313,330	0
Prior Year Levy Corrections	16,430	16,430	0
New Construction	1,805,775	608,906	(1,196,869)
2020 Fire & EMS Levy Lid Lift	7,529,886	7,259,770	(270,116)
Total Regular Levy	40,998,383	39,531,398	(1,466,985)
Excess Levy	565,070	565,070	0
Total Levy	41,563,453	40,096,468	(1,466,985)

As noted above, there is no change to the Fire District 41 debt service levy (\$480,176), which was adopted by the Council on November 17, 2020 via Ordinance O-4743.

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 are not subject to the City's excess levy rate. The City has three separate levy rates depending on where one lives within Kirkland as noted in the table below.

Levy Type	Pre-Annexation City	Neighborhoods Previously Served by FD-41	Neighborhoods Previously Served by FD-34 or FD-36
Regular Levy Rate	\$ 1.22951	\$ 1.22951	\$ 1.22951
Excess Levy Rate	\$ 0.02427	N/A	N/A
Fire District 41 Debt Levy	N/A	\$ 0.07026	N/A
Estimated Preliminary Levy Rate	\$ 1.25378	\$ 1.29977	\$ 1.22951