



**CITY OF KIRKLAND**  
**Department of Finance & Administration**  
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**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:** November 9, 2020

**Subject:** **PRELIMINARY 2021 PROPERTY TAX LEVY PUBLIC HEARING AND ADOPTION**

**RECOMMENDATION:**

City Council conduct a public hearing and adopt the following legislation levying property taxes for the year 2021:

1. Resolution R-5451 declaring substantial need for purposes of setting the limit factor for the property tax levy in 2021;
2. Ordinance O-4742 establishing the preliminary 2021 regular levy for the City of Kirkland and the excess levy for the pre-annexation City;
3. Ordinance O-4743 establishing the 2021 levy for the area previously served by Fire District 41 to pay debt service on the district's outstanding bonds.

**BACKGROUND DISCUSSION:**

Washington State law requires a public hearing on revenue sources that must include consideration of possible increases in property tax revenues (RCW 84.55.120). A public hearing on revenues sources for the 2021-2022 Budget, where the property tax levy was discussed, was held on September 15, 2020. A public hearing on the City's 2021 property tax levy is scheduled for November 17, 2020. Following the public hearing, the City Council will be asked to adopt the following ordinances: 1) the City's preliminary 2021 property tax levy (Ordinance O-4742); and 2) the levy to fund the annual debt service for the Fire District's outstanding debt for 2021 (Ordinance O-4743). This is the last year for the Fire District 41 levy, because the debt will be retired in December 2021.

The attached ordinances are required to meet the November 30, 2020 deadline established by the King County Council for submission of 2021 property tax levies. Each year the County prepares a levy limit worksheet for cities and other taxing districts 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 final worksheet is received.

The County estimates that the final levy worksheets will be available in late November or early December. Since the date of the final levy worksheet is unknown, an ordinance needs to be passed that establishes a maximum amount of property taxes the City expects to levy in 2021. A maximum amount is used since the County will allow cities to submit a final levy amount that is lower than the preliminary amount but not higher. Consequently, the preliminary property tax levy is typically higher than the final levy, which will be calculated when the City receives its final levy worksheet from King County. If possible, the final 2021 property tax levy will be brought forward for adoption at the December 8, 2020 City Council meeting. Otherwise, it will be brought forward for adoption when available.

It should be noted that the property tax levy needs to be established annually. Accordingly, the attached ordinances establish levies for 2021, the first year of the biennium.

The following discussion explains how the preliminary levy numbers were calculated for both the City and the area previously served by Fire District 41.

## **1. REGULAR AND EXCESS LEVY FOR THE CITY OF KIRKLAND**

This section explains how the preliminary levy numbers in Ordinance O-4742 were calculated for each of the variable factors in the City's levy. 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 only applies within the pre-annexation boundaries).

### Regular Levy for City

There are five components that make up the 2021 regular levy:

1. Base levy
2. Optional levy increase
3. New construction
4. Prior year levy corrections
5. 2020 Fire & Emergency Medical Services levy lid lift (approved by voters on November 3, 2020)

### *Base Levy*

The 2021 base levy equals the 2020 regular levy of \$31,332,962, which consists of the following levies:

- Levy for the General Fund and the Street Fund
- 2002 Parks Maintenance levy lid lift
- 2012 Street Maintenance and Pedestrian Safety levy lid lift
- 2012 Parks Maintenance, Restoration, and Enhancement levy lid lift

The prior year levy correction of \$23,108, which was included in the 2020 regular levy, is excluded from the 2021 base levy.

### *Optional Levy Increase*

For taxing districts with a population of 10,000 or more, the optional levy increase, which must be approved by the governing body, is the lesser of 1% or the rate of inflation as measured by the Implicit Price Deflator. According to the Washington State Department of Revenue, the

Implicit Price Deflator for the 2021 regular levy is 0.602%. Therefore, the 2021 optional levy increase is limited to 0.602%. However, under state law taxing districts with a population of 10,000 or more can adopt a resolution of "substantial need," if the governing body believes a 1% increase is warranted. It should be noted that the resolution must be approved by a "supermajority" vote of the governing body (i.e., a majority plus one).

The 2021-2022 Preliminary Budget assumes a 1.0% optional levy increase in 2021, which equates to \$313,330 and is applied to the following regular levy components noted in the table below.

<b>Regular Levy Component</b>	<b>2020 Amount</b>	<b>1.0% Increase</b>	<b>2021 Amount</b>
General Fund & Street Fund	24,457,657	244,577	24,702,234
2002 Parks Maintenance Levy	1,313,565	13,136	1,326,701
2012 Streets Levy	3,117,019	31,170	3,148,189
2012 Parks Levy	2,444,721	24,447	2,469,168
<b>Total</b>	<b>31,332,962</b>	<b>313,330</b>	<b>31,646,292</b>

The difference between a 0.602% increase and a 1.0% increase is \$124,705, which would have to be bridged with available General Fund cash or expenditure reductions, if the Council does not approve a resolution of "substantial need." The justification for a 1.0% optional increase in 2021 is tied to the following:

- The City has an underlying structural imbalance between revenue growth and the increasing cost of providing services, requiring the use of available one-time cash from prior year General Fund surpluses to balance the General Fund "base" budget in 2021-2022.
- The City faces short and long-term revenue losses as a result of the negative economic impact of COVID-19 in 2020-2021 and the expiration of the Annexation Sales Tax Credit in mid-2021 (\$4.94 million per year).

The City Council is scheduled to act on a "substantial need" resolution at the November 17<sup>th</sup> Council meeting.

#### *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 preliminary new construction valuation for the 2021 levy (as of November 5, 2020) is \$605,326,916, which corresponds to a new construction levy of \$601,925 ( $\$605,326,916 / \$1,000 \times \$0.99438$ ). Over the past five years, the increase in the new construction levy as a percentage of each year's total base levy has ranged between 1.52 percent and 2.85 percent. The preliminary 2021 new construction levy of \$601,925 (as of November 5, 2020) represents a 1.92% increase relative to the 2020 regular levy of \$31,332,962 (excluding the \$23,108 prior year levy correction).

In the preliminary levy ordinance (O-4742), the preliminary 2021 new construction levy is increased from \$601,925 to \$1,805,775, which is three times the November 5, 2020 amount. This is done to ensure the City receives the final new construction levy amount in 2021, which will not be known until the City receives its final 2021 levy worksheet from the County Assessor in late November or early December. It is expected that the final new construction levy will be closer to the November 5, 2020 estimate of \$601,925. When the final levy worksheet is received, staff will adjust the 2021 property tax levy accordingly and prepare a final ordinance for Council approval.

The preliminary 2021 new construction levy (as of November 5, 2020) is allocated proportionately across the four regular levy components noted in the table below. Also, the additional increment of \$1,203,850 is included to tie to the preliminary ordinance (O-4742).

<b>Regular Levy Component*</b>	<b>Levy with Optional 1.0% Increase</b>	<b>New Construction Allocation</b>	<b>Preliminary 2021 Regular Levy</b>
General Fund & Street Fund**	24,718,664	469,846	25,188,510
2002 Parks Maintenance Levy	1,326,701	25,234	1,351,935
2012 Streets Levy	3,148,189	59,880	3,208,069
2012 Parks Levy	2,469,168	46,965	2,516,133
<b>Subtotal</b>	<b>31,662,722</b>	<b>601,925</b>	<b>32,264,647</b>
Additional New Construction Increment		1,203,850	1,203,850
<b>Total</b>	<b>31,662,722</b>	<b>1,805,775</b>	<b>33,468,497</b>

\* Excludes 2020 Fire & EMS levy, which was approved by voters on November 3, 2020.

\*\* Includes \$16,430 in prior year levy corrections.

#### *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.

#### *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. The 2021 levy is \$7,529,886, which is determined as follows:

Total assessed valuation (preliminary estimate)	\$32,024,351,374
Multiply by levy lid lift rate per \$1,000 AV (noted in Fire & EMS levy ordinance)	\$0.23513
<b>Fire &amp; EMS levy in 2021</b>	<b>\$7,529,886</b>

There has arisen a difference in interpretation on how the senior property tax exemption applies to the Fire & Emergency Medical Services levy lid lift. The interpretation currently being considered by the King County Department of Assessments may result in lower revenue collection than projected by the City of Kirkland. City staff are working with Bond Counsel and King County Department of Assessments staff to resolve the matter. Details will be provided at the November 17 Council meeting. The preliminary ordinance includes the maximum amount for the levy lid lift (\$7,529,886), which is based on a levy rate of \$0.23513 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. 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.

#### Trends in Assessed Valuation

Assessed valuation encompasses existing properties, which are revalued annually, and new construction. The preliminary 2021 total assessed valuation for Kirkland (as of November 5, 2020) is \$32,024,351,374, which is 1.58% higher than 2020. This includes new construction, which represents a 1.92% increase over the 2020 total assessed valuation. As a result, existing properties experienced an overall decrease in total assessed valuation of 0.34% relative to 2020.

For the preliminary levy only, new construction valuation is shown at double the November 5, 2020 figure to ensure that the final new construction levy amount will be remitted to the City. It should be noted that the preliminary new construction figure from King County does not include the State utility assessed valuation, which has not been finalized yet.

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.

#### Preliminary Levy Rates

Based on the City's total assessed valuation from the preliminary 2021 levy limit worksheet (as of November 5, 2020), an intentionally high estimate for new construction (\$1,805,775), the 1.0% optional increase, the 2002 Parks Maintenance levy, the 2012 Streets levy, the 2012 Parks levy, and the 2020 Fire & EMS levy, which was approved by voters on November 3, 2020, the regular levy tax rate for the City would increase from \$0.99438 per \$1,000 of assessed valuation in 2020 to \$1.24263 in 2021 (see table below).

The excess levy rate, which applies to properties within the pre-annexation boundaries, is decreasing from \$0.02483 to \$0.02441 primarily due to the assessed valuation increase to the pre-annexation portion of the City (see table below).

Calculation of Levy Rate	Levy Amount	Applicable AV	Levy Rate
Regular Levy Rate	39,794,533	÷ \$32,024,351,374/1,000	\$1.24263
Excess Levy Rate	565,070	÷ \$23,151,400,947/1,000	\$0.02441

## 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% 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 establishes a levy of \$480,176 for the areas previously served by Fire District 41. This translates to a levy rate of \$0.07025 per \$1,000 of assessed valuation (see table below).

Calculation of Levy Rate	Levy Amount	Applicable AV	Levy Rate
Fire District 41 Levy Rate	480,176	÷ \$6,835,673,202/1,000	\$0.07025

Annexation area residents previously served by Fire District 41 will be subject to an estimated 2021 total levy rate of \$1.31288, which consists of the City's estimated 2021 regular levy rate of \$1.24263 plus the Fire District's estimated 2021 levy rate of \$0.07025.

## 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 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 (the levy rates are estimates based on the preliminary assessed valuation provided by the County Assessor on November 5, 2020).

Levy Type	Pre-Annexation City	Neighborhoods Previously Served by FD-41	Neighborhoods Previously Served by Woodinville or Redmond
Regular Levy Rate	\$ 1.24263	\$ 1.24263	\$ 1.24263
Excess Levy Rate	\$ 0.02441	N/A	N/A
Fire District 41 Debt Levy	N/A	\$ 0.07025	N/A
<b>Estimated Preliminary Levy Rate</b>	<b>\$ 1.26704</b>	<b>\$ 1.31288</b>	<b>\$ 1.24263</b>

The preliminary 2021 levies are summarized by ordinance below.

<u>Ordinance O-4742</u>	
2020 Regular Levy	\$ 31,332,962
Optional 1.0% Increase	313,330
New Construction	1,805,775
Prior Year Levy Corrections	16,430
2020 Fire & EMS Levy Lid Lift	7,529,886
<b>Total Regular Levy</b>	<b>\$40,998,383</b>
Excess Levy	565,070
<b>Total 2021 Preliminary Levy</b>	<b>\$41,563,453</b>
 <u>Ordinance O-4743</u>	
Fire District 41 Debt Service Levy	\$ 480,176

Adoption of the preliminary 2021 property tax levy ordinances on November 17, 2020 is required to meet the King County 2021 levy submittal deadline of November 30, 2020. Final 2021 levy ordinances will be prepared for Council approval once the final levy limit worksheet is received from the County Assessor in late November or early December.