



King County

Metropolitan King County Council Budget and Fiscal Management Committee

STAFF REPORT

Agenda Item:	17, 18, 19, 20	Name:	Patrick Hamacher
Proposed No.:	2016-0485 2016-0486 2016-0487 2016-0496	Date:	October 25-27, 2016

SUBJECT:

Proposed Ordinance 2016-0486 and **Proposed Ordinance 2016-0487** are two ordinances necessary to levy property taxes for 2017. Proposed Ordinance 2016-0486 declares substantial need of the county in order to implement a 1% levy increase. Proposed Ordinance 2016-0487 is known as the sunshine ordinance and it declares tax increases in both dollar and percentage values.

Proposed Ordinance 2016-0485 and **Proposed Ordinance 2016-0496** would complete the levy certifications for 2016 (for collection in 2017).

SUMMARY:

This staff report provides background and analysis for the ordinances relating to property tax levies for 2016 for the County and for other taxing districts within King County.

Proposed Ordinance 2016-0487 relates to the County's property tax levies for collection in 2015 and the percentage by which these levies will increase over the 2014 levies. This ordinance, often referred to as the "Sunshine Ordinance", is required by State law if a taxing district wishes to increase its levies by the lesser of 1% or the implicit price deflator. The Executive has proposed increasing levies by 1% over the prior year's levies, with a couple exceptions which will be discussed later.

Proposed Ordinance 2016-0486 is known as the substantial need ordinance which allows the taxing districts in Washington to increase taxes by 1%, even if the Implicit Price Deflator is below one percent provided that they make a declaration of substantial need. This ordinance would make the declaration of substantial need and allow the property tax levies to take a 1% increase.

Proposed Ordinances 2016-0485 and 2016-0496 are known as the levy certification ordinances whereby the County Legislative Authority certifies the levies for all taxing districts in the County.

ANALYSIS:

King County levies property taxes for various purposes:

- The County's regular levy of up to \$1.80 per \$1,000 of assessed value (AV) is for general County purposes and is levied county-wide. This levy, referred to broadly as the Current Expense Levy, actually provides property tax funding for a variety of County funds. For 2017, the levy would provide funding for the general fund, AFIS, mental health, veterans' relief, parks, transit, children and family justice center and veterans and human services.
- The Unincorporated Area Levy (UAL) of up to \$2.25 per \$1,000 of AV has historically been limited to constructing, improving or maintaining roads and bridges and any service provided in the unincorporated area. This levy is assessed only in unincorporated King County.
- The Emergency Medical Services (EMS) levy was renewed by the voters in November 2013. The renewed levy set a new base rate for the EMS levy. In 2017, the EMS levy is projected to be \$123 million at a rate of \$0.027 per \$1,000 of AV.
- Voters approved a new parks and recreation levy in August 2013. This levy was added to the tax rolls in 2014 at a rate of \$0.1877 per \$1,000 of AV and collecting \$70.3 million in 2017 at a rate of \$0.153
- The Conservation Futures levy is a county-wide levy. The taxes collected for Conservation Futures are restricted to preservation of open space. The rate cannot exceed \$0.0625 per \$1,000 of AV. In 2017 it will generate \$19.4 with a rate of \$0.042 \$1,000 of AV.
- The voters, at the August 2012 election approved a new levy for the construction and rebuild of the Youth and Family Justice Center located at 12th and Alder. For 2017, that levy is projected to generate \$24.3 million at a rate of \$0.053 per \$1,000 AV.
- The voters have authorized a levy to replace the region's aging emergency radio system. This levy, known as the PSERN levy, is expected to generate \$30.5 million at a rate of \$0.066 per \$1,000 AV for collection in 2017.
- Finally, the County's newest lid-lift levy, the Best Starts for Kids Levy, is projected to generate \$62.1 million at a rate of \$0.135 per \$1,000 AV in 2017.

Current Expense Levy or General Fund Levy: The Executive has proposed and based the 2017 proposed budget on a property tax levy increase of 1% plus new construction for

the Current Expense Levy. As discussed later in the report, the Executive and Council must declare substantial need under ordinance 2016-0486 to take the one percent as the Implicit Price Deflator (IPD) is below 1% for this year.

Table 1 shows the estimate of the Current Expense Levy developed by the Executive for budget preparation purposes. These estimates include new construction. However, the assessed values for new construction and for public utility new construction have not been finalized. The actual levy amounts are therefore subject to change.

Table 1: Current Expense Levy

	Amount	Totals
Regular Levy:		
Current Expense	344,735,000	
Mental Health	6,500,000	
Veterans	2,900,000	
Intercounty River Improvement	50,000	
Total Regular Levy		\$354,185,000
Lid Lifts:		
AFIS	\$20,939,000	
Veterans and Human Services	18,542,000	
Parks	70,288,000	
Children & Family Justice Center	24,414,000	
PSERN	30,479,000	
Best Starts for Kids	62,135,000	
Total Lid Lifts		\$226,797,000
Grand Total		\$580,982,000

As shown in the table, while an estimated total of \$580 million is to be levied for current expenses, the levy actually funds a variety of programs. The Mental Health and Veterans Relief distributions are levied in accordance with State statutes.¹

In total, the Current Expense Levy plus the lid-lift levies bring the County's regular levy to \$1.26 per \$1,000 AV. As a reminder, counties in Washington State are allowed to levy up to a maximum of \$1.80 per \$1,000 AV. This leaves the County with just under 58 cents (31%) of available levy capacity. However, many areas of the County are experiencing levy suppression issues where the County's levy plus all of the other taxing districts are currently projected to exceed the \$5.90 per \$1,000 AV aggregate limit in 2015.

EMS Levy – The County also levies a county-wide property tax for Emergency Management Services. This levy is not part of the Current Expense Levy. A new EMS Levy was approved by the voters in 2013 at a beginning rate of \$0.335 per \$1,000 of assessed value. The levy for 2016 is estimated to generate \$123 million, a rate of \$0.267 per \$1,000 of AV.

¹ In previous years, the levy also funded debt service on outstanding limited tax general obligation bonds.

Unincorporated Area Levy (Road Levy) – State law also authorizes counties to collect a property tax, in the unincorporated area only, for the purpose of raising revenue for establishing, laying out, constructing, altering, repairing, improving, and maintaining county roads, bridges, and wharves necessary for vehicle ferriage and for other proper county purposes. This levy cannot exceed \$2.25 per \$1,000 of assessed value. The levy is limited to a 1% annual growth rate plus new construction. For 2016, the Road Levy is projected to be \$87.6 million, roughly \$7.1 million more than the 2014 levy. This translates into a rate of \$2.25 per \$1,000 of AV, the statutory maximum. The Roads levy has banked taxation authority and because of this can be allowed to increase by just over 6% that is proposed as part of the Executive's budget.

Transit – In 2009, the Washington State Legislature passed SB 5433 which allowed all counties in the state with a population in excess of 1,500,000 to levy a property tax up to 7.5 cents per \$1,000 of AV for expanding transit capacity and capacity related expenses. The first 1 cent of this levy must be used for bus service on State Route 520. For 2016, the Executive is proposing to levy \$23.1 million with an estimated rate of \$0.05. As part of his proposed plan to increase funding for the passenger only ferry system, the executive is proposing to levy approximately one cent less than allowed for Transit and increase the ferry levy by the same amount so that the taxpayer sees no increase.

Ferry Levy – When the Ferry District was originally formed, the District Board had a broader vision than the current two passenger only runs from Vashon Island and West Seattle to downtown Seattle. As such, the initial levies were larger and a significant fund balance accumulated over time. For the last several years, the Ferry levy has been a fraction of a cent per \$1,000 AV. This year, the levy was \$0.00349 (or roughly 1/3 of a cent per \$1,000 AV). The fund balance has now been exhausted and the Executive has proposed increase the levy to \$0.0125 per \$1,000 AV (one and one quarter cent per \$1,000 AV). As noted above, the Executive has proposed an equivalent reduction in the Transit property tax as discussed above.

Proposed Ordinance 2016-0487 would fulfill the County's legal obligation to disclose the percentage increase that the 2017 levies will have over the 2016 levies, as required by Referendum 47 (the state law that requires disclosure of tax increases). The calculation excludes the levy addition for new construction. Except for the changes to the Marine, Transit and Roads levy (previously discussed), all other levies are increasing by 1% or less. The actual percentages in the Sunshine Ordinance vary from about 0.75% to 1.2% because of various technical changes and other limitations.

The County Charter requires the budget, including both revenue and appropriation ordinances, to be adopted by December 1. Therefore, action on this ordinance is expected to be taken prior to the adoption of the County budget.

An amendment to Proposed Ordinance 2016-0487 is expected to be prepared to update the property tax levy figures to align with the most recent forecast of the Office of Economic and Financial Analysis. Those figures, and the amendment, are expected prior to the committee vote on levies.

Proposed Ordinance 2016-0485 is the levy certification ordinance and is necessary for the Treasury Section of the Finance and Business Operations Division to issue property tax statements in the correct amounts. State law requires that the county legislative authority establish the levy amounts for the county and for all other taxing districts in the county. Proposed Ordinance 2016-0485 certifies the levies of all taxing districts in King County. This ordinance is usually adopted by the Council after adoption of the budget. The ordinance requires information from the Assessor's Office and the taxing districts that will not be available until early December. This ordinance is typically passed from Committee without recommendation and held at full Council until December.

Proposed Ordinance 2016-0496 is identical to Proposed Ordinance 2016-0485 (as introduced). The Budget and Fiscal Management Committee may wish to pass this proposed ordinance out of committee without recommendation, to be held at the full Council. This ordinance may be needed if additional information is received from taxing districts that change levy amounts. This is a placeholder ordinance that can be acted upon in either December or January if any districts (or the county) discover errors or other changes to their property tax ordinances.

Proposed Ordinance 2016-0486 is known as the "substantial need" ordinance. Under state law and the requirements of Referendum 47. The taxing districts in the State can take the lesser of 1% or inflation as determined by the Implicit Price Deflator, a somewhat obscure measure of inflation that is rarely used. For this year, the IPD is less than 1% and therefore the county needs to make a declaration of substantial need to take the 1% increase for the general fund.

AMENDMENT:

Amendment 1 to Proposed Ordinance 2016-0487 will be prepared for the committee vote on revenue ordinances. The other three ordinances can be passed as introduced with the note that the levy certification ordinances will need to be amended at full Council to insert the proper final numbers.

INVITED:

1. Dwight Dively, Director, Office of Performance, Strategy and Budget
2. Dave Reich, Chief Economist, Office of Economic and Financial Analysis

ATTACHMENTS:

1. Proposed Ordinance 2016-0485
2. Proposed Ordinance 2016-0486
3. Proposed Ordinance 2016-0487
4. Proposed Ordinance 2016-0496