## STAFF REPORT

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| **Agenda Item:** | 6, 7, 8, 9 and 10 | **Name:** | Rachelle Celebrezze |
| **Proposed No**.: | 2015-0409  2015-0410  2015-0411  2015-0412  2015-0413 | **Date:** | October 28, 2015 |

**SUBJECT:**

**Proposed Ordinance 2015-0409** and **Proposed Ordinance 2015-0410** are the “Sunshine Ordinances” andwould complete the requirements necessary for the County to levy property taxes in 2015 for collection in 2016.

**Proposed Ordinance 2015-0411** and **Proposed Ordinance 2015-0412** would complete the levy certifications for 2016.

**Proposed Ordinance 2015-0413** would find a substantial need for the County to use a limit factor of 101 percent for property taxes to be levied by the County in 2016, as anticipated in the 2015-2016 Adopted Budget.

**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 2015-0409** relates to the County’s property tax levies for collection in 2016 and the percentage by which these levies will increase over the 2015 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 percent or the implicit price deflator. The Executive has proposed increasing levies by 1 percent over the prior year’s levies, with a couple exceptions which will be discussed later.

**Proposed Ordinance 2015-0411** relates to the 2015 levy of property taxes by all taxing districts within King County for collection in the year 2016. This is known as the levy certification ordinance.

**Proposed Ordinance 2015-0413** relates to the County's declaration of substantial need to increase property tax levies by 1 percent in 2016, rather than the implicit price deflator. Under State law, the County may only increase property taxes by the lesser of 1 percent or the implicit price deflator. In September 2015, the County was informed that the implicit price deflator for 2016 is 0.251 percent. Under State law, the County is permitted to increase levies by 1 percent if the County by enacting a finding of substantial need.

**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 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 2016, the levy would provide funding for the general fund, AFIS, mental health, veterans’ relief, parks, transit, veterans and human services, and the Puget Sound Emergency Radio Network (PSERN) project.
* The Unincorporated Area Levy (UAL) of up to $2.25 per $1,000 of assessed value 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 2016, the EMS levy is projected to be $120 million at a rate of $0.285 per $1,000 of assessed value.
* 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 assessed value and collecting $67.9 million in 2016.
* 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 assessed value. In 2016 it will generate $18.9 million with a rate of $0.045 per $1,000 of assessed value.
* Finally, 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.

**Current Expense Levy or General Fund Levy:** The Executive has proposed, and based the 2016 proposed budget on, a property tax levy increase of 1 percent plus new construction for the Current Expense Levy. It is noteworthy that, although the County has adopted a budget for the entire 2015-2016 biennium, the Sunshine Ordinance only pertains to 2016 to ensure that the most accurate data is used.

Table 1 shows the estimate of the Current Expense Levy developed by the Office of Economic and Fiscal Analysis. 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

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| --- | --- | --- |
|  | **Amount** | **Totals** |
| **Regular Levy:** |  |  |
| Current Expense | $336,367,755 |  |
| Mental Health | 6,366,874 |  |
| Veterans | 2,836,936 |  |
| Debt Service | 0 |  |
| Intercounty River Improvement | 50,000 |  |
| ***Total Regular Levy*** |  | ***$345,621,565*** |
| **Lid Lifts:** |  |  |
| AFIS | $20,234,950 |  |
| Veterans and Human Services | 17,918,893 |  |
| Parks | 67,925,490 |  |
| Children & Family Justice Center | 23,821,948 |  |
| Puget Sound Emergency Radio Network | 29,182,693 |  |
| ***Total Lid Lifts*** |  | ***$159,083,974*** |
| **Grand Total** |  | **$504,705,539** |

As is apparent from the table, while an estimated total of $504.7 million is to be levied for current expenses, the levy actually funds a variety of programs. The Mental Health and Veterans Relief distributions are determined in accordance with State statutes.[[1]](#footnote-1)

The five lid-lifts were approved by the voters. The AFIS levy was renewed by the voters in 2012 for an additional 6 years, for collection from 2013 through 2018. The parks levy was approved by the voters in 2013 for collection from 2014 through 2019. The Veterans and Human Services levy was approved by voters in 2011 for collection from 2012 through 2017. The Puget Sound Emergency Radio Network (PSERN) levy was approved by voters in 2015 for collection from 2016 through 2024. It should be noted that if the Best Starts for Kids levy is approved by voters in November 2015, that levy would also be considered to be a levy lid-lift and would be added to the calculation of the County's regular levy.

In total, the Current Expense Levy plus the five lid-lift levies bring the County’s regular levy to $1.20/ $1,000 assessed valuation. As a reminder, counties in Washington State are allowed to levy up to a maximum of $1.80 / $1,000 AV. This leaves the County with approximately 60 cents (33%) of available levy capacity.

**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 approximately $120 million, a rate of $0.285 per $1,000 of assessed value.

**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 percent annual growth rate plus new construction. For 2016, the Roads Levy is projected to be $81.4 million, roughly $243,000 more than the 2015 levy. This translates into a rate of $2.25 per $1,000 of assessed value, the statutory maximum.

While the increased levy for 2016 does not, by itself, do much to address the yawning funding deficits in the Roads Services Division, it is good news in that the 2016 levy for Roads actually is increasing compared to the prior year. This increase, on top of the levy increase in 2015, as compared to 2014, reflects the stabilization of the assessed valuation in the unincorporated areas and better news than had been seen during the national recession.

**Conservation Futures Levy –** The Conservation Futures levy is authorized in State law at a maximum of $.0625 per $1,000 of assessed value. However, this levy is limited to 1 percent annual growth plus new construction. The proceeds of this levy are restricted to the acquisition of open space, land or rights to future development of land. The levy may also be used for salmon preservation purposes. For 2016, the Conservation Futures Levy is expected to be $18.9 million with a rate of $0.045.

**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 assessed value 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 transit levy is projected to total $27 million with an estimated rate of $0.064.

**Prorationing**

RCW 84.52.043 establishes a maximum aggregate property tax rate of $5.90 per $1,000 of assessed valuation for counties, cities, fire districts, library districts, and certain other junior taxing districts. Under State law, if a taxing district reaches its statutory rate limitation, that district can only collect the amount of tax revenue that would be produced by that statutory maximum levy rate. In other words, the tax district’s levies must be reduced in order to comply with the State limitation. Reductions are made in accordance with a district hierarchy established under RCW 84.52.010. In general, countywide levies are the most senior taxing districts and would be the last to be reduced, or prorationed, under state law.

In past years, several junior taxing districts' levies were prorationed. In 2015, for example, three levy districts were all partially prorationed—Fall City Metropolitan Park District, Hospital District #1, and Si View Metropolitan Park.

In 2016, no junior taxing districts are projected to be prorationed. It should be noted, however, that if the Best Starts for Kids levy is approved by voters, two park districts—Fall City Metropolitan Park District and Si View Metropolitan Park District—are projected to experience prorationing in 2016.

**Best Starts for Kids Levy**

As noted earlier, the County's estimated tax levy for 2016 does not include the Best Starts for Kids levy. If voters approve the Best Starts for Kids levy in November 2015, collections for the levy would begin in 2016, and the Best Starts for Kids levy would be added to the County's regular tax levy as a levy lid-lift. As of October 2015, if approved the voters, the Best Starts for Kids levy, $58.3 million is projected to be levied for the program in 2016.

In addition, although no junior taxing districts are projected to be prorationed in 2016 in the absence of the Best Starts for Kids levy, if that levy is approved by the voters, both the Fall City and Si View Metropolitan Parks Districts are projected to be prorationed in 2016. Fall City would be entirely prorationed while Si View would be partially prorationed, projected to lose approximately $285,000 of levy proceeds in 2016.

**Proposed Ordinance 2015-0409** fulfills the County’s legal obligation to disclose the percentage increase that the 2016 levies will have over the 2015 levies, as required by Referendum 47 (the state law that requires disclosure of tax increases). The calculation excludes the levy addition for new construction.

**Proposed Ordinance 2015-0410** is identical to Proposed Ordinance 2015-0409 (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 until final assessments for 2015 are released in mid-December. If the final assessments reveal that one or more County funds have additional capacity under the levy limit calculations—or if the Best Starts for Kids levy is approved—the Council could choose to pass an amended Sunshine Ordinance (Proposed Ordinance 2015-0410) at that time to collect the additional funds and add the Best Starts for Kids levy, as applicable.

**Proposed Ordinance 2015-0411** 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 2015-0411 certifies the levies of all taxing districts in King County. Since this 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 2015-0412** is identical to Proposed Ordinance 2015-0411 (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.

**Proposed Ordinance 2015-0413** would find that the County has a substantial need to increase property taxes by 1 percent, rather than the implicit price deflator. As noted earlier, State law allows counties to increase the property tax levies each year by the lesser of the implicit price deflator and 1 percent.

The implicit price deflator is calculated annually by the State Department of Revenue, using the percent change in the personal consumption, as published by the United States Bureau of Economic Analysis. For 2016, the implicit price deflator is 0.251 percent. As a result, unless the County finds that a substantial need exists to set the annual increase in property tax levies at 1 percent, as permitted under RCW 84.55.0101, the County will only be able to increase property taxes by 0.251 percent.

It should be noted that the 2015-2016 Adopted Budget assumes that the County would levy property taxes in 2016 at 1 percent (plus new construction). If the County does not enact the substantial need proposed ordinance allowing for that 1 percent increase, the County would need to amend the budget for the biennium. If this proposed ordinance is not enacted, the Office of Economic and Financial Analysis (OEFA) estimates that County property tax revenues would be reduced by $3.9 million in 2016 across a number of funds, including the General Fund. In addition, if the County uses the lower growth figure of 0.251 percent, it would reduce the base amount of property taxes collected in 2016, which would reduce the revenue that can be collected in future years. For example, in 2017, assuming the County were to increase property taxes by the maximum 1 percent, the base would be the reduced amount of property taxes collected in 2016.

**ATTACHMENTS**

1. Proposed Ordinance 2015-0409
2. Fiscal Note for Proposed Ordinance 2015-0409
3. Proposed Ordinance 2015-0411
4. Proposed Ordinance 2015-0413
5. Transmittal Letter

**INVITED:**

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

1. In previous years, the levy also funded debt service on outstanding limited tax general obligation bonds. [↑](#footnote-ref-1)