

## POLICY MEMORANDUM

Date: November 10, 2010

To: Board of Commissioners

From: Jeannine Grinnell, CPA, Vice President of Finance/Treasurer

Subject: 2011 Tax Levy – Action Requested

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**Summary:**

Per our established budget and tax levy calendar for the 2011 calendar year, Management is presenting a proposed tax levy for 2011. **Management is recommending that we do not adopt the allowable 1% levy limit increase in 2011, as well as foregoing the ability to bank taxing capacity related to the 2011 tax levy.** More information is provided below for your review and subsequent action.

**Background:**

The Revised Code of Washington (RCW) 70.44.060(6) provides the authority for the District to levy taxes each year within required timeframes.

The King County Council, by Ordinance 2152, requires taxing districts to submit specific information regarding tax levies for the ensuing year as a part of a formal resolution of the District's governing body.

Additionally, the King County Council is required by RCW 84.52.070 to annually certify the amount of property taxes levied in King County. In order to make that certification, the County must know the amount of taxes to be lawfully levied for each taxing district. This year, King County has communicated to the District that the King County Council must receive our resolution related to our regular tax levy by no later than December 3, 2010.

Further, the District has covenanted in our 2001, 2004, and 2008 Limited Tax General Obligation (LTGO) debt issues to include in our budgets and levy sufficient taxes, as allowable under the law, to cover the principal and interest on these outstanding debt issues.

**Analysis and/or Details of Required Changes:**

For taxing jurisdictions with a population of 10,000 or more (which we are), the limit factor is the lesser of 101% or 100% plus "inflation." "Inflation" is measured by the



change in the implicit price inflator/deflator for personal consumption expenditures for the most recent twelve months, ending in July.

This year, according to the Washington State Department of Revenue, the rate of inflation (IPD rate) for property taxes due in 2011 is 1.539 percent (please see attached September 20, 2010 memo from the Department of Revenue).

The King County “Levy Limit Worksheet – 2011 Tax Roll,” dated November 9, 2010, computes an allowable tax levy of \$20,346,325 using a 1% limit factor and a fully reset levy basis from 2010. We levied \$19,472,394 for the 2010 tax levy. Both of these figures **include** new construction and a relevel of prior year refunds.

For comparative purposes, the data in the grid below provides information on several alternatives available to the Board of Commissioners as it relates to the District’s 2011 tax levy. The first column shows actual 2010 data. The middle (second) column presents the 2011 tax levy **with a 1% levy limit increase**. The third (far right) column presents the 2011 tax levy **holding “flat” to our 2010 tax levy of \$19,472,394**.

	2010 actual	2011 with 1% levy limit increase	2011 "flat" to 2010 levy
Assessed Valuation (\$ billions)	\$ 36.6	\$ 35.5	\$ 35.5
Millage Rate Per \$1,000 Valuation	\$ 0.5329	\$ 0.5735	\$ 0.5548
Annual Tax on a \$287,500 Home * (dollars)	\$ 153.21	\$ 164.85	\$ 163.24
Total Tax Levy (\$ millions)	\$ 19.5	\$ 20.4	\$ 19.7
Debt Service on LTGO (\$ millions)	\$ 16.4	\$ 18.3	\$ 18.3
Fire District Contracts (\$ millions)**	\$ 1.7	\$ 1.7	\$ 1.4
Remainder for Emergency Services	1.4	0.2	0.0

As the figures indicate, the Board could assess a tax levy with no increase and there would be sufficient taxes to pay the 2011 principal and interest on the outstanding LTGO debt issues (2001, 2004, and 2008). If the Board were to assess a tax levy with no increase, the tax levy would be \$19,681,672. That figure **includes** new construction and the relevel of prior year refunds. When those figures are excluded, the amount levied is exactly the same as what was levied in 2010. For more detail on the tax levy calculation, please see Attachment A at the back of this memo.

\*For illustrative purposes, the grid also shows the estimated annual taxes that a District taxpayer paid in 2010 on an average house valued at \$287,500 (the average 2009/2010 valuation of a home in the Renton/Kent area, per the King County Assessor’s Office).



The following table illustrates the Sources and Uses of the Tax Levy. The Sources and Uses Table has been prepared assuming no increase in the levy limit and levying the same amount, excluding new construction and prior year refunds, as in 2010.

	2011
<b><u>SOURCES:</u></b>	
Projected Tax Levy Collections (assumes no levy limit increase)	<u>\$ 19,681,672</u>
<b><u>USES:</u></b>	
Existing 2001 LTGO Debt Service (principal and interest)	\$ 4,521,394
Existing 2004 LTGO Debt Service (principal and interest)	\$ 1,317,025
Existing 2008 LTGO Debt Services (principal and interest)	\$ 12,415,613
Contractual payments to Fire Districts*	<u>\$ 1,427,640</u>
	-
Total Projected LTGO Debt Service and Payments to Fire Districts	<u>\$ 19,681,672</u>
Projected ending balance	\$ -

\* Estimated as of November 11, 2010 due to potential fire district consolidations, mergers, and annexations.

**Alternatives/Options:**

As presented above, and also as part of Attachment A, the Board may decide to either (a) levy the same amount as in 2010, excluding new construction and the re-levy of the prior year’s refunds, or (b) authorize a 1% allowable levy limit increase.

**Timing:**

Action is required at the November 15, 2010 Board Meeting for the District’s Board of Commissioners to authorize the regular tax levy for 2011. Please see Resolution 954.

**Recommendation:**

As stated at the beginning of this memo, Management is recommending the Board authorize a tax levy foregoing the 1% allowable levy limit increase. There are sufficient taxes projected to fund the payment of principal and interest on the limited general obligation bonds of the District for 2011. Authorizing the regular tax levy ensures we remain compliant with applicable bond covenants.



**Attachments:**

1. Resolution 954
2. September 20, 2010 memo from the Washington State Department of Revenue
3. Attachment A, Tax Levy Calculation Sheet – 2011

**ATTACHMENT A :**
**TAX LEVY CALCULATION SHEET - 2011**

The following calculations are offered for assistance and to present additional information in the dollar limitations and calculations mandated by statute on the 2011 regular property tax levy for the District and are based upon figures from the King County Department of Assessments as of November 9, 2010.

**LIMITATION CALCULATION (84.55.010)**

	100% of prior year's levied taxes (flat)	101% levy limit	1.0154% IPD	
<b>Limit Factor Levy Calculation:</b>				(IPD = Implicit Price Deflator)
Regular levy amount	\$ 19,472,394	\$ 19,937,670	\$ 19,937,670	
Limit factor (if applicable)	0.0	1.01	1.0154	
Levy	\$ 19,472,394	\$ 20,137,047	\$ 20,244,710	
Local New Construction	\$ 202,548,394	\$ 202,548,394	\$ 202,548,394	
Increase in Utility Value	\$ -	\$ -	\$ -	
Total New Construction	\$ 202,548,394	\$ 202,548,394	\$ 202,548,394	
2010 Regular Levy Rate	0.5329	\$ 0.5329	\$ 0.5329	
New Construction Levy <sup>(1)</sup>	\$ 107,938	\$ 107,938	\$ 107,938	
Total Limit Factor Levy	\$ 19,580,332	\$ 20,244,985	\$ 20,352,648	
Relevy for prior year refunds <sup>(2)</sup>	\$ 101,340	\$ 101,340	\$ 101,340	
Total Allowable Levy + refunds*	<u>\$ 19,681,672</u>	<u>\$ 20,346,325</u>	<u>\$ 20,453,988</u>	
Regular Levy Assessed Value less annexations	\$ 35,478,302,484	\$ 35,478,302,484	\$ 35,478,302,484	
Levy Rate Based on Allowable Levy	0.5548	0.5735	0.5765	

The District is allowed to levy the lesser of the 1% levy limit or the Implicit Price Deflator. For 2011, that means the maximum the District could levy is 1%. However, the IPD data is shown for comparative purposes.

\* The District assessing less than the 1% levy limit factor legally allowable under state law means the District is assessing less than the total allowable levy. In addition, the District is foregoing the ability to "bank" taxing capacity as it relates to the 2011 levy.

(1) and (2) - New construction and refund levies are excluded from the current year's maximum allowable levy before the comparison is made on the dollar and percent increase in the levy limit between years. Our comparative data is below:



**LEVY CALCULATION ON INCREASE COMPARED TO PRIOR YEAR LEVY:**

2010 Actual Regular Levy	\$	19,472,394
2011 Proposed Regular Levy	\$	19,681,672
Less: New Construction	\$	107,938
Less: Prior Year Refunds	\$	101,340
2011 Levy For Comparatives	\$	19,472,394
% increase between years		0.00%
\$ increase between years	\$	-