

STAFF REPORT NO. 164-09

TO: Mayor and City Council
FROM: Pat McDonnell, City Manager

DATE: 11/23/09
12/7/09

Subject: Property Tax Levy for 2010.

Objective: To provide funding for the 2009-2010 biennial budget.

Present Situation: City Council must approve an increase in its regular property tax levy for 2010 in order to collect the allowable increase in City property taxes needed to fund the City's General Fund Budget. On November 6, 2001, Washington voters approved Initiative 747 (I-747) which limits the allowable increase in the property tax levy to 1.0%, or the rate of inflation, whichever is less. As defined by the Implicit Price Deflator (IPD), inflation for 2010 levy calculations is negative 0.848 percent (-0.848%).

Staff recommends that City Council approve a 1.0% increase in the property tax levy. Based on last year's levy of \$39,038,902 the increase will be \$390,389.02. Authorization of this increase requires a majority plus one vote of City Council. Staff estimates that the City's property tax rate in 2010 will range between \$2.55 per \$1,000 of assessed value to \$2.65 per \$1,000 of assessed value, compared to the actual 2009 levy rate of \$2.31 per \$1,000. The increase in the property tax rate is attributed to assessed values in the City being reduced by approximately 10% compared to the prior year. In 2010, at a rate of \$2.55 per thousand, the annual City property tax on a typical property (\$198,000 assessed value) would be \$505. As a comparison, in 2009, assuming the same property was assessed for \$220,000 with the actual levy rate of \$2.31 per thousand this property owner paid \$508 for their City portion of their tax bill. Overall, the proposed 1% increase for 2010 will have very little impact to a City resident based on this example.

In addition to the 1% increase in the base levy, the City collects new property tax revenue based on the value of new construction added to the assessment rolls during the prior year. The revenue to the City is calculated using the assessed value of new construction multiplied by the prior year's levy rate. The value of new construction will not be finalized by the County Assessor's Office until late November and includes the value of utility new construction provided to the County Assessor by the State. The most recent estimate from the County Assessor's Office indicates more than \$156 million of new construction which translates into \$361,341 of additional City property tax revenue. New construction is almost half of what it was in 2008 for 2009 taxable values. The City's ordinance states the percentage and dollar amount increase in the City's base property tax levy and allows the County Assessor to determine the levy amount for new construction based on their final calculations.

Advantage(s): Continued funding will be available from the City's primary revenue source to pay the cost of essential City services.

Disadvantage(s): Regular property taxes will increase; however, the increase is small and the specific impact on a property owner is dependent on the change in their assessed value.

Action Requested:

1. On November 23, 2009, approve the Ordinance on first reading, setting the date of second reading and public hearing for December 7, 2009.
2. On December 7, 2009, subject to second reading and public hearing, approve the Ordinance.

Attachment: Ordinance

C9110903/PM:CL:MW