

**CITY OF ISSAQUAH
City Council Special Meeting**

6:00 PM
September 24, 2019

MINUTES

Council Chambers
135 E. Sunset Way

COUNCIL AND ADMINISTRATIVE PERSONNEL PRESENT

Councilmembers:

- Mariah Bettise
- Stacy Goodman (*Excused Absence*)
- Victoria Hunt
- Tola Marts
- Chris Reh
- Lindsey Walsh
- Paul Winterstein

Administration/Staff:

- Mary Lou Pauly, Mayor
- Andrea Snyder, Interim City Administrator
- Tisha Gieser, Deputy City Clerk

CALL TO ORDER

Mayor Pauly called the meeting to order at 6:00 PM.

AGENDA ITEMS

- a) **ID 0421 - Proposed 2020 Budget: Mayor's Presentation**

Mayor Pauly gave an address presenting the preliminary 2020 budget.

ADJOURNMENT

There being no further business to come before the Council, the meeting was adjourned at approximately 6:19 PM.

Tisha Gieser, Deputy City Clerk

Mary Lou Pauly, Mayor

**CITY OF ISSAQUAH
Council Study Session**

6:30 PM
September 24, 2019

MINUTES

Council Chambers
135 E. Sunset Way

COUNCIL AND ADMINISTRATIVE PERSONNEL PRESENT

Councilmembers:

Mariah Bettise
Stacy Goodman (*Excused Absence*)
Victoria Hunt
Tola Marts
Chris Reh
Lindsey Walsh
Paul Winterstein

Administration/Staff:

Andrea Snyder, Interim City Administrator

CALL TO ORDER

Deputy Council President Bettise called the meeting to order at 6:30 PM.

AGENDA ITEMS

a) **ID 0520 - Classification and Compensation Study**

Presented by:

*Andrea Snyder, Interim City Administrator
Lauren Knox, Human Resources Coordinator
Noel Treat, Consultant, Strategies 360
Greg McNutt, Consultant, Milliman
Cody Nelson, Consultant, Milliman*

Public Comment – None.

Direction

Following discussion, Council directed the Administration to:

- Move forward with Option #1, bringing forward an agenda bill to adopt a Salary Ordinance incorporating the proposed changes resulting from the classification and compensation study in coordination with adoption of the 2020 Budget.
- Strive to complete a Classification & Compensation Study every five years.

b) **ID 0568 - SE 43rd Signal Improvements Funding Options**

Presented by:

Andrea Snyder, Interim City Administrator

Public Comment

The following public comment was provided:

- Daphne Gahn, Providence Point, expressed support for a future ballot measure to support transportation projects.
- Ron Imhoff, Providence Point, expressed support for Option #1, funding the SE 43rd Signal Improvement project using existing debt capacity.

Direction

Following discussion, Council directed the Administration to:

- Move forward with Option #1, funding the SE 43rd Signal Improvement project using existing debt capacity.

ADJOURNMENT

There being no further business, the meeting was adjourned at approximately 8:17 PM.

Christine Eggers, City Clerk

Mariah Bettise, Deputy Council President



Proposed 2020 Budget: Levy and Revenue Sources

**Proposed Council Action:
Set Public Hearing**

DEPARTMENT OF	Finance Department Beth Goldberg
COUNCIL LIAISON	n/a
OTHER COUNCIL MEETINGS	n/a
COMP PLAN POLICY NOS.	n/a
OTHER POLICIES	
EXHIBITS	A. Proposed Ordinance B. Preliminary 2020 Levy Worksheet

SUMMARY STATEMENT

Introduction

This agenda bill seeks Council action to:

1. Set the required public hearing for the 2020 revenue sources, including proposed increases to the property tax levy, for Oct. 21, 2019.
2. On Nov. 4, 2019, the agenda bill will return for Council action to adopt an ordinance (Exhibit A) setting the amount of property tax to be levied in 2020.

Background

The City's authority to impose a property tax is derived from the Washington State Constitution and described in the Revised Code of Washington (RCW) Chapters [84.52](#) and [84.55](#). The revenues from property tax are considered general government revenues. That means that this money is placed in the General Fund and can be used for any basic governmental service or good such as public safety, planning, parks or administration.

While legislative bodies impose other taxes by setting a rate first, such as adjusting the utility tax from 2.33% to 6%, the property tax is different. The property tax is a budget-based tax where a legislative body begins the process by setting the amount of revenue required. This amount is called the "levy." In 2019, the City's regular property levy provided \$9,151,219, which represented roughly 17% of all General Fund revenue.

The Regular Levy Calculation

The amount of revenue the Council may impose through the regular levy is dependent on five elements:

1. The base: The starting point for each year is the levy from the previous year.
2. The levy increase: This is the optional increase of 1% over the previous year's base.
3. Levy corrections for refunds: In some years, corrections are made to the previous year's levy and the King County Assessor's Office re-levies the amount refunded in the upcoming year.
4. New construction: The value of new construction, provided by the King County Assessor's Office, is taxed at the previous year's levy rate.
5. Banked Capacity: The difference between the maximum allowable levy and the actual levy. More information on the banked capacity is provided later in this agenda bill.

The following table details the specific amounts for each of the elements in the 2020 preliminary levy calculation:

Element	Value
Base Levy	\$9,151,260
1% Increase	\$91,513
Corrections	0
New Construction	\$67,664
Banked Capacity	\$138,050
Total Allowable Levy	\$9,448,486

Limits on Growth

As described in the [General Fund Revenues white paper](#), following passage of Initiative 747 in 2001 and subsequent action by the State Legislature, the growth of property tax revenues is to 1% over the amount collected in the prior year plus the value of new construction. For 2020, the 1% increase is approximately \$91,513 in new revenue over 2019. State law provides three ways to exceed this 1% cap:

- A voter-approved "lid lift" that permits revenues to exceed the limit for one or multiple years depending on ballot language. The City does not have any lid lifts in place.
- A voter-approved "excess levy" that dedicates revenues for bond payments. Issaquah has approximately \$1.8 million in voter-approved bonds that are part of an excess levy.
- Utilizing banked capacity. State law allows local legislative bodies to capture "banked capacity" that accumulates when the legislative body does not use the full 1% increase in a previous year(s). The City has a modest amount of banked capacity, that amassed between 2009 – 2013 when the City chose to not levy the 1% property tax increase, which the Administration is recommending for use as part of the 2020 levy.

Banked Capacity

To provide local governments flexibility and remove the "use it or lose it" aspect of annually taking the maximum 1% property tax increase, RCW 84.55 allows a legislative body to levy an amount under the 1% cap and pass legislation that formally "banks" the remainder. In the following year, the County Assessor calculates the maximum allowable levy for the City as if the City had taken the full 1%. The difference between the maximum allowable levy and the actual regular levy is the banked capacity.

It is important to note that banked capacity is neither a savings account nor a static number that rolls over from year to year. That is, the decision to bank \$50,000 one year does not mean that there will be \$50,000 in the future to include in the levy. Banking \$50,000 simply means not collecting that amount the following year but also ensuring future calculations will factor in that you could have.

The City Council banked property tax capacity most recently for five consecutive years from 2009-2013. During that time, the Council chose each year to forego the 1% increase over the previous year's levy. While the value of banked capacity available each year has fluctuated from \$166,000 to \$424,000 over the past 10 years, the total impact of banking levy capacity since 2009 was over \$3 million in revenue which the City could have, but did not, collect.

For 2020, the County Assessor has determined the preliminary maximum levy is \$9,448,486 (Exhibit B). The amount of banked capacity available to the City in 2020 is \$138,050. The Administration is recommending that the Council utilize the banked capacity and levy the maximum allowable amount. Using the banked capacity will add an estimated \$10-\$11 to the average homeowner's tax bill for 2020.

Excess Levy

In addition to the regular levy set by the Council, the City also imposes an excess levy to pay the debt service on voter-approved General Obligation bonds. The City is paying debt service on three voter-approved bond series, including bonds to support capital investments in Fire Station 72 and numerous Parks and City facilities. These bonds require a total annual debt service payment of \$1,776,719 and the excess levy is set to that amount. For context on the cost to the average taxpayer, in 2019, the median homeowner paid \$646 for the regular levy and \$124 for the excess levy.

While the value of this excess levy decreases significantly when bonds are paid off, the Administration has refinanced, or "refunded," most of the bonds to take advantage of better interest rates and save money for taxpayers. The Administration plans to do this again in December 2019 to achieve savings on the bonds for Fire Station 72. Refunding the Fire Station 72 bonds is expected to save the City an estimate \$10,000 per year in debt service costs. The Administration will transmit an ordinance in early December seeking the authority to refund the Fire Station 72 bonds. In order to ensure the levy reflects the expected savings, the refunding is presumed in the total annual payment of \$1,776,719.

Preliminary Levy Rates

After the amount for each levy is set for the following year, it is used with the total value of all assessed property in the City to determine the levy rate. By convention, the levy rate is expressed in the units of dollars per \$1000 of assessed value. For example, the City's regular levy rate in 2019 was \$0.79284 per \$1,000 of assessed value and the excess levy rate was \$0.15209 per \$1,000 of assessed value. As previously mentioned, these levy rates translated to the average homeowner owing \$646 and \$124 for the regular and excess levies respectively.

Based on levying the maximum allowable regular levy and the excess levy required for bond payments, the preliminary levy rates for 2020 are \$0.79723 per \$1,000 of assessed value for the regular levy and \$0.14991 per \$1,000 of assessed

value for the excess levy. These levy rates translate to \$698 and \$131 for a homeowner with a residence at the projected median assessed value of \$875,000.

Trends in Assessed Valuation

Total assessed valuation is the dollar amount assigned by the Assessor to all property in the City. It is composed of the annual re-evaluation of existing land and structures plus the addition of new construction. Although preliminary, the total assessed value of all property in Issaquah is \$11,851,715,604. This is an increase of only 2.5% over the total assessed value of all property in 2019. This 2.5% is significant because growth in assessed value for the previous 5 years averaged 13% each year with a substantial amount of value added from new construction. New construction in 2019 was valued at \$249.9 million. In 2020, new construction is valued at just \$85.3 million, a considerable decrease from 2019. The table below depicts the specific values in total assessed values and new construction from 2015 to 2020.

Year	Total Assessed Value	Percent Change over Previous Year	Assessed Value from New Construction
2015	\$7,405,825,261	18.1%	\$140,324,138
2016	8,095,504,580	9.3	240,170,116
2017	9,012,789,772	11.3	272,604,440
2018	10,152,241,433	12.6	237,641,474
2019	11,567,549,438	13.9	249,982,688
2020	11,851,715,604	2.5	85,343,714

Generally, the rate of growth in assessed value has no bearing on the amount of property tax revenue that the City will collect since the property tax rate is budget-based. That said, the value of new construction plays an important role in revenue growth outside of the 1% cap since the entire value of new construction is taxed at the previous year's levy rate. For example, in 2019, the \$249.9 million of new construction provided \$217,000 in property tax revenue. For 2020, the \$85.3 million results in just \$67,000 of revenue. Although these values are preliminary and subject to change as the Assessor finalizes the values for all property, this trend appears to mirror the softening in 2019 sales tax revenues coming from the construction sector. It may also signal that future property tax revenue growth may be more limited than in the previous five years. For a clearer depiction of this, the table below shows the amount of property tax revenue collected as a result of new construction.

Year	Assessed Value of New Construction	Previous Year Regular Levy Rate (per \$1,000 of A.V.)	Revenue from New Construction
2014	\$135,723,507	1.22963	\$166,890
2015	140,324,138	1.20027	168,427
2016	240,170,116	1.05183	252,618
2017	272,604,440	1.00487	273,932
2018	237,641,474	0.94476	224,514
2019	249,982,688	0.87048	217,605
2020	85,343,714	0.79284	67,774

Preliminary and Final Levy Calculations

All King County cities are legally required to submit an estimate of their 2020 property tax levies to the Metropolitan King County Council by Dec. 2, 2019. In order to ensure this occurs, adoption of the property tax is separate from the adoption of the budget and scheduled for Nov. 4, 2019. However, the King County Assessor's Office does not typically provide each city with the final assessed valuation and new construction amounts for the new tax year until the second week of December. As a result, cities adopt property tax levies for the coming year based on preliminary assessed valuation and new construction amounts. When the final amounts are distributed by the Assessor's Office in December, cities simply notify the Metropolitan King County Council of the corrected levy amount. To be explicit about this levy correcting practice, language is included in the 2020 property tax levy ordinance (Exhibit A) that authorizes the Finance Director to report the corrected property tax levy amount to the Metropolitan King County Council. This is a practice employed by many cities in the region.