



To: Mayor and City Councilmembers

From: Tho Kraus, Assistant City Manager/Administrative Services

Through: John J. Caulfield, City Manager *John J. Caulfield*

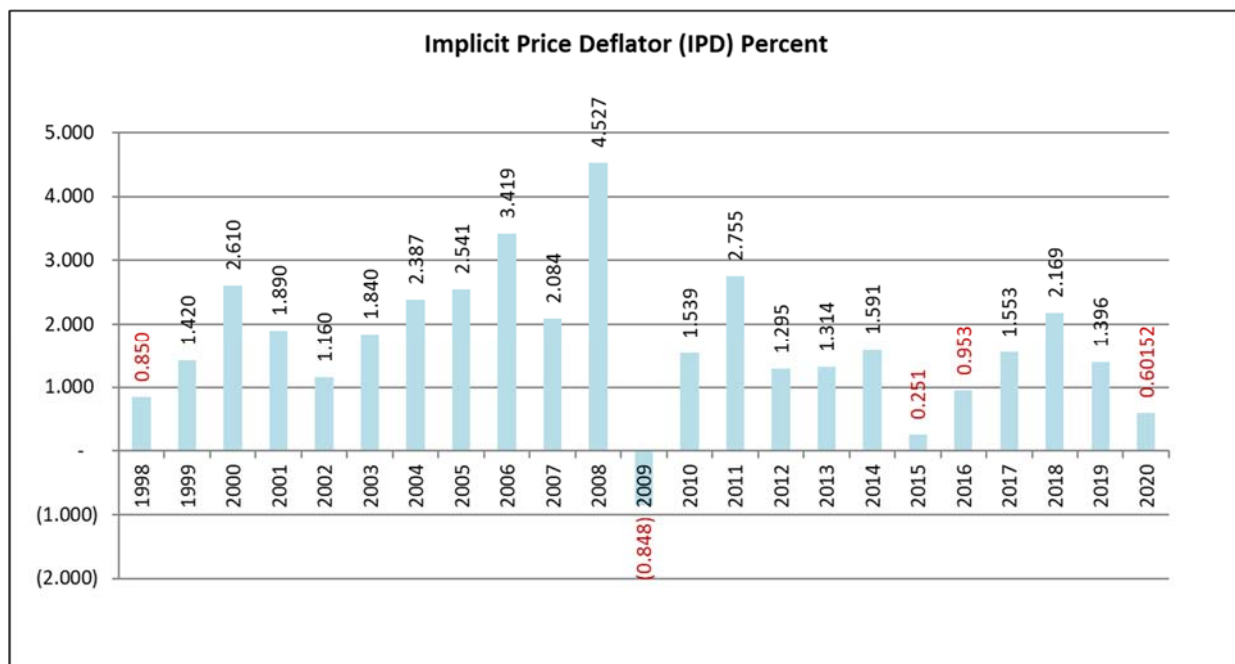
Date: November 2, 2020

Subject: Public Hearing - 2021 Property Tax Levy

INTRODUCTION

Washington state law requires cities to hold a public hearing on possible increases in the property tax revenues to be held prior to the time the city levies the taxes. The hearing must be held in November in order to provide the County with the information by November 30. A public hearing has been scheduled for November 2 for this purpose. Adoption of the property tax levy ordinance is also scheduled for November 16.

Per state statute, the City is authorized to increase its property tax annually up the lesser of Implicit Price Deflator (IPD) or one percent (1%). The IPD for 2019-2020 (as of August 27, 2020) is 0.60152% which means the City Council will need to adopt an ordinance of substantial need in order to receive the full 1% increase as authorized by state statute. The August 27 data release is the final release before the September 25 statutory deadline in RCW 84.55.005. The last time the City Council adopted a declaration of substantial need was for the 2016 property tax levy.



ANALYSIS

The following tables below provides a summary comparison of assessed value, city levy rate and city property tax levy and detailed calculation used for the City's property tax levy amounts being considered for collection in 2021.

	2020	2021 Estimate 1% Increase	Change	
			\$	%
Assessed Value	\$7,456,764,386	\$8,120,002,566	\$663,238,180	8.9%
City Levy Rate	\$0.9761	\$0.9128	-\$0.0633	-6.5%
City Property Tax Levy *	\$7,278,631	\$7,412,114	\$133,483	1.8%

* The City Property Tax Levy increase of 1.8% includes the 1% increase plus new construction, administrative refunds and increase in state-assessed property. The increase in state-assessed property for 2021 is estimated based on 2020's actual, which is \$0.

According to the Pierce County Assessor-Treasurer's office, the City's total assessed value for 2020 property tax collection is estimated to be \$8,120,002,566, which represents a 8.9% or \$663,238,180 increase from the City's total assessed value for 2020 property tax collection of \$7,456,764,386.

Tax Calculation Factor	Tax Levy
Base Levy Amount (Highest Lawful Regular Tax)	\$7,255,259
1% Increase	\$72,553
New Construction Estimate	\$75,952
Administrative Refunds	\$8,350
Subtotal	\$7,412,114
Increase from State-Assessed Property (2021 Estimate Based on 2020 Actual)	\$0
Total Preliminary 2021 Levy	\$7,412,114
2020 Preliminary Assessed Value for 2021 Levy	\$8,120,002,566
2021 Preliminary Levy Rate (Assumes 1% Increase)	\$0.9128
Levy Rate Calculation:	
2021 Preliminary Assessed Value	\$8,120,002,566
Divide by \$1,000	\$1,000
2020 AV Per \$1,000	\$8,120,003
2021 Preliminary Levy	\$7,412,114
Divide by 2020 AV Per \$1,000	\$8,120,003
2021 Preliminary Levy Rate per \$1,000 (Assumes 1% Increase)	\$0.9128

The table below illustrates the impact of no increase and 1% increase to the average homeowner. According to Pierce County Assessor-Treasurer's 2020 Residential Revaluation Report, the average home values for 2020 and 2021 property tax is \$344,316 and \$378,347, respectively.

	2020	2021 Est	Change from 2020		2021 Est	Change from 2020		2021 Est	Change from 2020	
	1% Increase	No Increase	\$	%	IPD 0.60152%	\$	%	1% Increase	\$	%
AV Average Home	\$344,316	\$378,347	\$34,031	9.9%	\$378,347	\$34,031	9.9%	\$378,347	\$34,031	9.9%
City Levy Rate	\$0.9761	\$0.9039	-\$0.0722	-7.4%	\$0.9093	-\$0.0668	-6.8%	\$0.9128	-\$0.0633	-6.5%
City Property Tax Paid	\$336.09	\$341.98	\$5.89	1.8%	\$344.02	\$7.93	2.4%	\$345.36	\$9.27	2.8%
Additional property tax paid by average homeowner with 1% increase compared to No increase =									\$3.38	

- Compared to 2020, under the no increase scenario, the property tax levy rate of \$0.9039 results in an additional \$5.89 property tax paid to the City, which is an increase of 1.8%.
- Compared to 2020, under the IPD 0.60152% scenario, the property tax levy rate of \$0.9093 results in an additional \$7.93 property tax paid to the city, which is an increase of 2.4%.
- Compared to 2020, applying the 1% increase property tax levy rate of \$0.9128 results in an additional \$9.27 property tax paid to the City, which is an increase of 2.8%.
 - The additional property tax paid by the average homeowner with a 1% increase compared to no increase is \$3.38.

CITY COUNCIL OPTIONS & CONSIDERATIONS

The options the City Council may take regarding the 2021 property tax levy are:

- Option 1: Levy the property taxes without any increase.
- Option 1: Increase the property tax levy by 0.60152% based Implicit Price Deflator (IPD).
- Option 2: Increase the property tax levy by 1% commensurate with the 2021/2022 biennial budget estimates. - RECOMMENDED

The City's 2021 proposed revised budget includes an annual property tax increase of 1% as authorized by state statute. A 1% increase in property tax levy generates \$72,553 in additional revenue for city services, or an additional charge of \$3.38 annually per average homeowner compared to 0% increase.

The preliminary 2021 property tax revenue estimate is \$7,412,100 and is based on the preliminary figures provided by Pierce County.

Since 2006, the City has enacted the 1% increase as authorized by state statute. The cumulative impact of not taking the 1% increase in 2021 over the 6-year period (2021 - 2026) is approximately \$446,000.

The details of options 1, 2 and 3 are provided below.

Factors	2020 Max Per Statute 1%	2021 - Option 1 No Increase 0%	2021 - Option 2 IPD Limit 0.60152%	2021 - Option 3 Max Per Statute 1%
Base Levy Amount (Highest Lawful Regular Tax)	\$7,140,531	\$7,255,259	\$7,255,259	\$7,255,259
Increase	\$71,405.31	\$0	\$43,642	\$72,553
New Construction Estimate	\$43,322	\$75,952	\$75,952	\$75,952
Administrative Refunds (on 2020 Actual)	\$23,372	\$8,350	\$8,350	\$8,350
	\$0	\$0	\$0	\$0
Total Property Tax Levy	\$7,278,631	\$7,339,561	\$7,383,203	\$7,412,114
Total Property Tax Levy % Increase from Base Levy Amount	1.93%	1.16%	1.76%	2.16%
Assessed Value	\$7,456,764,386	\$8,120,002,566	\$8,120,002,566	\$8,120,002,566
Levy Rate Per \$1,000 AV	\$0.9761	\$0.9039	\$0.9093	\$0.9128
City Tax Paid by Average Home Owner Average Home Value for 2020 Property Tax = \$344,316 Average Home Value for 2021 Property Tax = \$378,347	\$336.09	\$341.98	\$344.02	\$345.36
City Tax Paid by Average Home Owner, Change from 2020 - \$	n/a	\$5.89	\$7.93	\$9.27
City Tax Paid by Average Home Owner, Change from 2020 - %	n/a	1.8%	2.4%	2.8%

NEXT STEPS

- Adoption on November 16, 2020

The City will have the opportunity to modify its levy certification in December once it receives the dollar amount of the administrative refunds from the County.

ATTACHMENTS

- Additional Information – Administrative Refunds
- Additional Information – State Assessed Property
- Taxable Values – Commercial & Residential Taxable Values and Levy Rates
- New Construction & Added Improvements
- Pierce County Assessor-Treasurer Information on Preliminary 2019 Assessed Values
- Pierce County Assessor-Treasurer Information on Preliminary Tax Levy Limit 2020 for 2021
- Draft Substantial Need Ordinance

ADDITIONAL INFORMATION – ADMINISTRATIVE REFUNDS

Administrative refunds are taxes that had been levied in previous years on properties that have had their taxes abated or cancelled. The following is an outline defining administrative refunds and what they consist of – there are 16 of them:

1. Paid more than once.
2. Paid as a result of manifest error in description.
3. Paid as a result of a clerical error in extending the tax rolls.
4. Paid as a result of other clerical errors in listing property.
5. Paid with respect to improvements which did not exist on assessment date.
6. Paid under levies or statutes adjudicated to be illegal or unconstitutional.
7. Paid as a result of mistake, inadvertence, or lack of knowledge by any person exempted or partially exempted from paying real property taxes.
8. Paid or overpaid as a result of mistake, inadvertence, or lack of knowledge by either a public official or employee or by any person paying the same with respect to real property in which the person paying the same has no legal interest.
9. Paid on the basis of an assessed valuation which was appealed to the county board of equalization and ordered reduced by the board.
10. Paid on the basis of an assessed valuation which was appealed to the state board of tax appeals and ordered reduced by the board. PROVIDED, That the amount refunded under subsections (9) and (10) shall only be for the difference between the tax paid on the basis of the appealed valuation and the tax payable on the valuation adjusted in accordance with the board's order.
11. Paid as a state property tax levied upon property, the assessed value of which has been established by the state board of tax appeals for the year of such levy: PROVIDED, HOWEVER, That the amount refunded shall only be for the difference between the state property tax paid and the amount of state property tax that would, when added to all other property taxes within the 1 percent limitation of the state constitution equal 1 percent of the assessed value established by the board.
12. Paid on the basis of an assessed valuation which was adjudicated to be unlawful or excessive: PROVIDED, that the amount refunded shall be for the difference between the amount of tax payable on the basis of the assessed valuation determined as a result of the preceding.
13. Paid on property acquired under a tax lien. (RCW 84.69.020)
14. Paid on the basis of an assessed valuation that was reduced under RCW 84.48.065.
15. Paid on the basis of an assessed valuation that was reduced under RCW 84.40.039.
16. Abated under RCW 84.70.010

ADDITIONAL INFORMATION – STATE ASSESSED PROPERTY

Utility and transportation companies that are defined in RCW 84.12 whose operations are in more than one county or state are assessed by the Department of Revenues' (DOR) Property Tax Division. These companies include airlines, railroads, electric companies who produce or distribute electricity on the retail or wholesale market, gas pipeline companies who distribute or sell gas on the retail or wholesale market, and telecommunications companies including landline local and long distance phone and wireless companies. Telecommunications also includes cable companies who have assets in Washington that are used for providing telephone service in more than one county or state. In addition to these companies, DOR also assessed private railcars. These private railcars are most often owned by companies who are not a railroad that pay the railroad companies to transport their cars from place to place, including chemical companies, grain import and export companies, and several companies who are in the business to lease railcars to railroads and others.

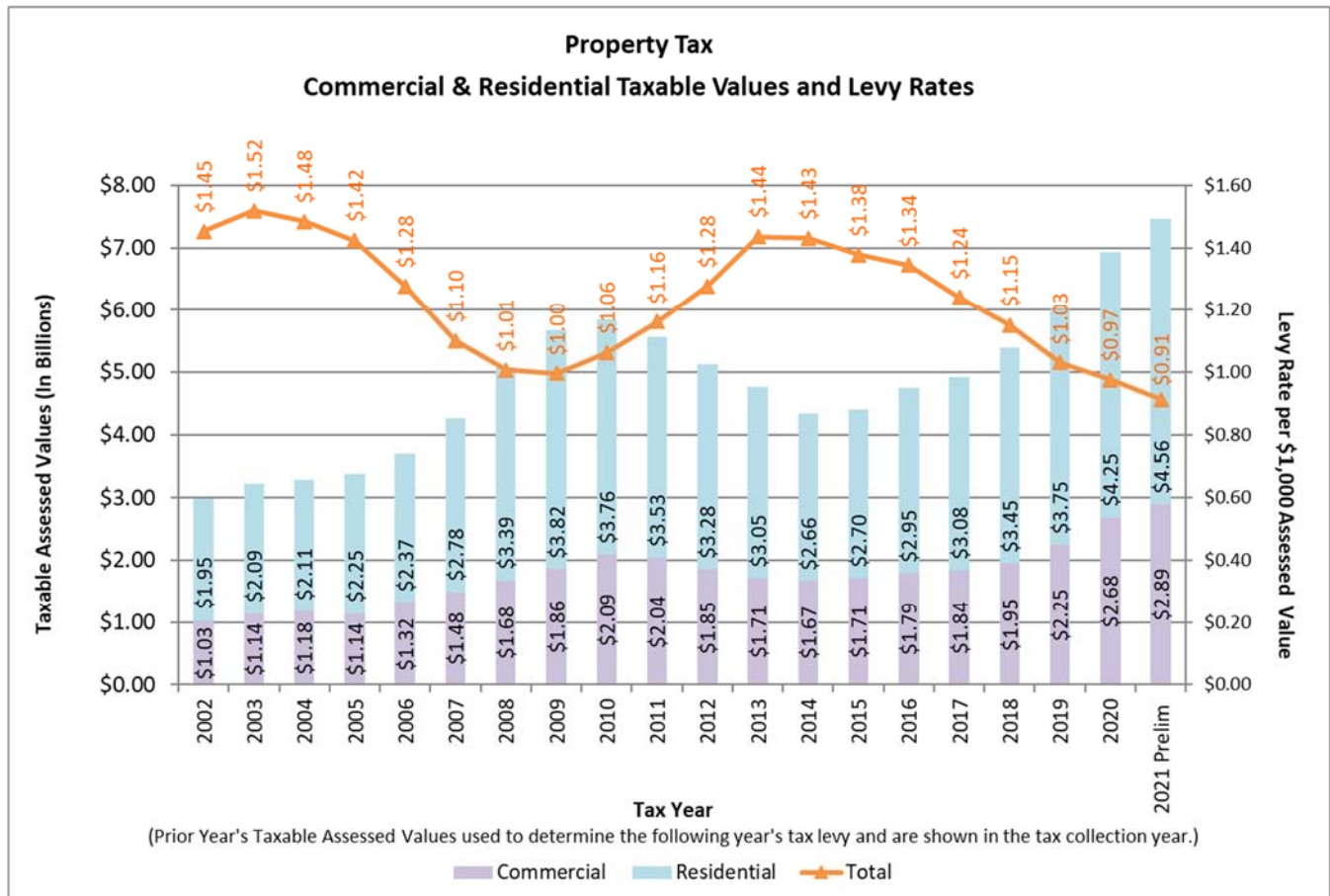
The appraised value of state assessed property is, by law, valued at 100% of market value. State, and in part, federal law require state assessed utilities be valued at the same level of assessment as other property in the same taxing jurisdiction. As a result, it is an equalized value of state assessed utilities that is allocated (apportioned) to all the taxing districts in the state; this includes real and personal property. The real and personal property ratio of each county is applied to the respective real and personal property appraised value of each company that is state assessed, and those values are apportioned to each county by tax code area (TCA).

Utility property appraisal is based on the unit method, property is valued as one thing. As a result, there is no specific value determined for any specific asset that makes up the operating unit. Hence, apportioned value does not directly relate to the value of assets in the TCA to which the assets value has been set. Apportionment is a process of assigning value based on certain metrics which generally consist of historical or original cost, length and size of pipes, miles of rail, etc., tied to the actual location of company assets. If one percent of a company's historical cost, length of pipe, or miles of main railroad track, then 1% is apportioned to all the TCAs in which the company has assets.

TAXABLE VALUES – COMMERCIAL & RESIDENTIAL TAXABLE VALUES AND LEVY RATES

Year	Taxable Values (In Billions)										
	Commercial		Residential		Total	Change From Prior Year					
						Commercial		Residential		Total	
						\$	%	\$	%	\$	%
2002	\$1.03	35%	\$1.95	65%	\$2.98	\$0.06	5.6%	\$0.14	7.5%	\$0.19	6.8%
2003	\$1.14	35%	\$2.09	65%	\$3.23	\$0.10	10.1%	\$0.14	7.1%	\$0.24	8.2%
2004	\$1.18	36%	\$2.11	64%	\$3.28	\$0.04	3.3%	\$0.02	0.9%	\$0.06	1.7%
2005	\$1.14	34%	\$2.25	66%	\$3.38	(\$0.04)	-3.1%	\$0.14	6.5%	\$0.10	3.1%
2006	\$1.32	36%	\$2.37	64%	\$3.69	\$0.18	15.6%	\$0.13	5.6%	\$0.30	9.0%
2007	\$1.48	35%	\$2.78	65%	\$4.27	\$0.17	12.8%	\$0.41	17.3%	\$0.58	15.7%
2008	\$1.68	33%	\$3.39	67%	\$5.07	\$0.19	12.9%	\$0.61	21.9%	\$0.80	18.8%
2009	\$1.86	33%	\$3.82	67%	\$5.67	\$0.18	10.7%	\$0.42	12.5%	\$0.60	11.9%
2010	\$2.09	36%	\$3.76	64%	\$5.85	\$0.23	12.5%	(\$0.06)	-1.5%	\$0.18	3.1%
2011	\$2.04	37%	\$3.53	63%	\$5.57	(\$0.05)	-2.2%	(\$0.23)	-6.2%	(\$0.28)	-4.8%
2012	\$1.85	36%	\$3.28	64%	\$5.13	(\$0.19)	-9.3%	(\$0.25)	-7.1%	(\$0.44)	-7.9%
2013	\$1.71	36%	\$3.05	64%	\$4.77	(\$0.14)	-7.5%	(\$0.22)	-6.8%	(\$0.36)	-7.1%
2014	\$1.67	39%	\$2.66	61%	\$4.33	(\$0.05)	-2.7%	(\$0.39)	-12.8%	(\$0.44)	-9.2%
2015	\$1.71	39%	\$2.70	61%	\$4.41	\$0.04	2.7%	\$0.03	1.2%	\$0.08	1.8%
2016	\$1.79	38%	\$2.95	62%	\$4.74	\$0.08	4.8%	\$0.25	9.4%	\$0.33	7.6%
2017	\$1.84	37%	\$3.08	63%	\$4.93	\$0.05	2.7%	\$0.14	4.6%	\$0.18	3.9%
2018	\$1.95	36%	\$3.45	64%	\$5.40	\$0.11	5.8%	\$0.36	11.8%	\$0.47	9.5%
2019	\$2.25	37%	\$3.75	63%	\$6.00	\$0.30	15.4%	\$0.31	8.9%	\$0.61	11.2%
2020	\$2.68	39%	\$4.25	61%	\$6.93	\$0.43	19.1%	\$0.50	13.3%	\$0.93	15.4%
2021 Prelim	\$2.89	39%	\$4.56	61%	\$7.46	\$0.22	8.1%	\$0.31	7.3%	\$0.53	7.6%

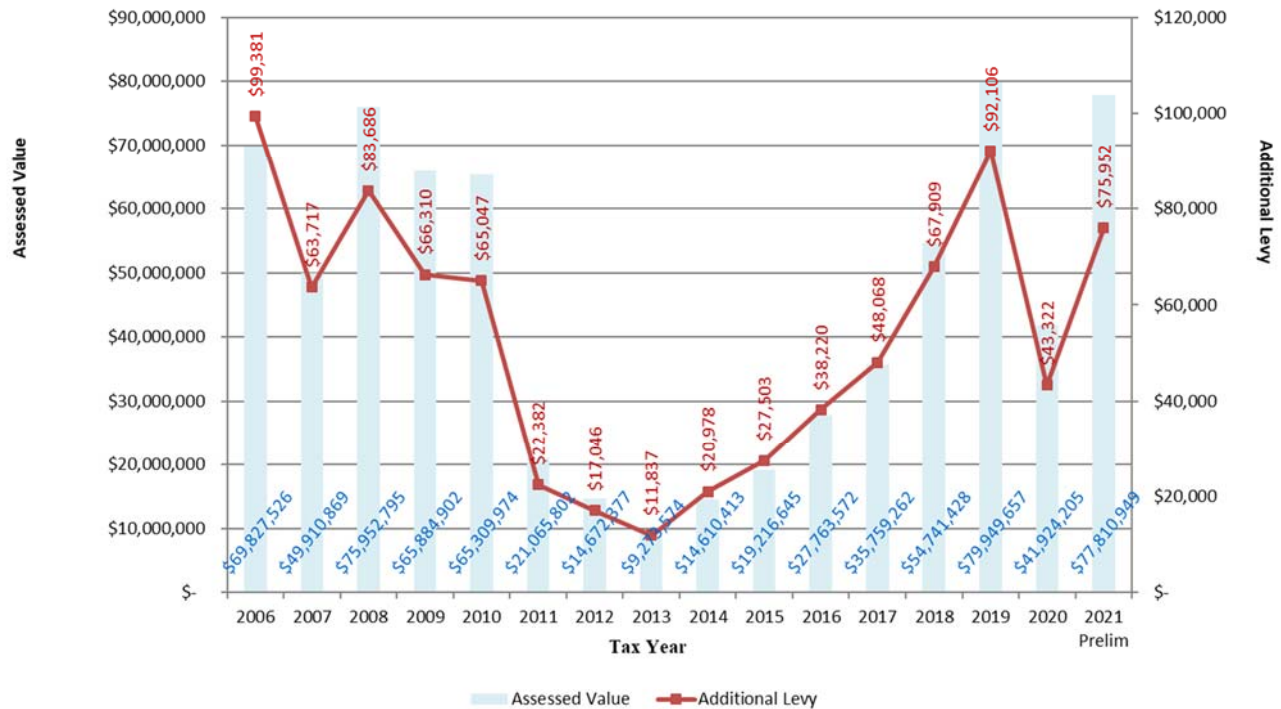
Taxable values are from the prior year which are used to determine the following year's levy rate and are shown in the applicable tax collection year. Values listed above continue to be adjusted after the certification of value due to exemptions, board of equalization actions, destroyed property, etc.



NEW CONSTRUCTION & ADDED IMPROVEMENTS

New Construction & Added Improvement						
Tax Year	Taxable Value	Additional Levy	Change From Prior Year			
			Assessed Value		Additional Levy	
			\$	%	\$	%
2006	\$ 69,827,526	\$ 99,381	n/a	n/a	n/a	n/a
2007	\$ 49,910,869	\$ 63,717	\$ (19,916,657)	-28.5%	\$ (35,664)	-35.9%
2008	\$ 75,952,795	\$ 83,686	\$ 26,041,926	52.2%	\$ 19,969	31.3%
2009	\$ 65,884,902	\$ 66,310	\$ (10,067,893)	-13.3%	\$ (17,377)	-20.8%
2010	\$ 65,309,974	\$ 65,047	\$ (574,928)	-0.9%	\$ (1,263)	-1.9%
2011	\$ 21,065,802	\$ 22,382	\$ (44,244,172)	-67.7%	\$ (42,665)	-65.6%
2012	\$ 14,672,377	\$ 17,046	\$ (6,393,425)	-30.3%	\$ (5,335)	-23.8%
2013	\$ 9,273,574	\$ 11,837	\$ (5,398,803)	-36.8%	\$ (5,209)	-30.6%
2014	\$ 14,610,413	\$ 20,978	\$ 5,336,839	57.5%	\$ 9,141	77.2%
2015	\$ 19,216,645	\$ 27,503	\$ 4,606,232	31.5%	\$ 6,526	31.1%
2016	\$ 27,763,572	\$ 38,220	\$ 8,546,927	44.5%	\$ 10,717	39.0%
2017	\$ 35,759,262	\$ 48,068	\$ 7,995,690	28.8%	\$ 9,848	25.8%
2018	\$ 54,741,428	\$ 67,909	\$ 18,982,166	53.1%	\$ 19,841	41.3%
2019	\$ 79,949,657	\$ 92,106	\$ 25,208,229	46.0%	\$ 24,197	35.6%
2020	\$ 41,924,205	\$ 43,322	\$ (38,025,452)	-47.6%	\$ (48,784)	-53.0%
2021 Prelim	\$ 77,810,949	\$ 75,952	\$ 35,886,744	85.6%	\$ 32,630	75.3%

**Property Tax
New Construction & Added Improvements**





Pierce County

Mike Lonergan, Assessor-Treasurer

2401 South 35th Street
Tacoma, WA 98409-7498
(253) 798-6111 FAX (253) 798-3142
ATLAS (253) 798-3333
www.piercecountywa.org/atr

September 22, 2020

OFFICIAL NOTIFICATION TO: LAKEWOOD

RE: 2020 PRELIMINARY ASSESSED VALUES

FOR REGULAR LEVY

Total Taxable Regular Value	8,120,002,566
Highest lawful regular levy amount since 1985	7,255,258.55
Last year's actual levy amount (including refunds)	7,278,630.54
Additional revenue from current year's NC&I	75,952.13
Additional revenue from annexations (RCW 84.55)	0.00
Additional revenue from administrative refunds (RCW 84.69)	8,350.25

No additional revenue from administrative refunds will be allowed if you are limited by your statutory rate limit.

Prior Year's Additional revenue from increase in state-assessed property	0.00
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FOR EXCESS LEVY

Taxable Value	7,978,691,415
Timber Assessed Value	-
Total Taxable Excess Value	7,978,691,415

2020 New Construction and Improvement Value	77,810,949
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*If you need assistance or have any questions regarding this information, please contact Kim Fleshman
253.798.7114 kim.fleshman@piercecountywa.gov*



Pierce County

Mike Lonergan, Assessor-Treasurer

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PRELIMINARY HIGHEST LAWFUL LEVY LIMIT 2020 FOR 2021

LAKESWOOD

> 10,000

REGULAR TAX LEVY LIMIT:

2019

A. <u>Highest regular tax which could have been lawfully levied beginning with the 1985 levy</u> [refund levy not included] times limit factor (as defined in RCW 84.55.005).	7,255,258.55 1.0060152 7,298,900.38
B. Current year's assessed value of new construction, improvements and wind turbines in original districts before annexation occurred times last year's levy rate (if an error occurred or an error correction was made in the previous year, use the rate that would have been levied had no error occurred).	77,810,949 0.976111107073 75,952.13
C. Current year's state assessed property value in original district if annexed less last year's state assessed property value. The remainder to be multiplied by last year's regular levy rate (or the rate that should have been levied).	66,090,198 66,090,198 0.00 0.976111107073 0.00
D. REGULAR PROPERTY TAX LIMIT (A + B + C)	7,374,852.52

ADDITIONAL LEVY LIMIT DUE TO ANNEXATIONS:

E. To find rate to be used in F, take the levy limit as shown in Line D above and divide it by the current assessed value of the district, excluding the annexed area.	7,374,852.52 8,120,002,566 0.908232781955
F. Annexed area's current assessed value including new construction and improvements times rate found in E above.	0.00 0.908232781955 0.00
G. NEW LEVY LIMIT FOR ANNEXATION (D + F)	7,374,852.52

LEVY FOR REFUNDS:

H. RCW 84.55.070 provides that the levy limit will not apply to the levy for taxes refunded or to be refunded pursuant to Chapters 84.68 or 84.69 RCW. (D or G + refund if any)	7,374,852.52 8,350.25 7,383,202.77
I. TOTAL ALLOWABLE LEVY AS CONTROLLED BY THE LEVY LIMIT (D,G,or H)	7,383,202.77
J. Amount of levy under statutory rate limitation.	8,120,002,566 1.628495338917 13,223,386.33
K. LESSER OF I OR J	7,383,202.77

ORDINANCE NO. _____

AN ORDINANCE of the City Council of the City of Lakewood, Washington, making a declaration of substantial need for purposes of setting the limit factor for the property tax levy for 2021.

WHEREAS, RCW 84.55.010 provides that a taxing jurisdiction may levy taxes in an amount no more than the limit factor multiplied by the highest lawful levy plus additional amounts resulting from new construction and improvements to property, newly constructed wind turbines, and any increase in the value of state-assessed utility property;

WHEREAS, under RCW 84.55.005(2)(C), the limit factor for a taxing jurisdiction with a population of 10,000 or over is the lesser of 101 percent or 100 percent plus inflation;

WHEREAS, RCW 84.55.005(1) defines “inflation” as the percentage change in the implicit price deflator for personal consumption expenditures for the United States as published for the most recent 12-month period by the Bureau of Economic Analysis of the federal Department of Commerce in September of the year before the taxes are payable;

WHEREAS, “inflation” for July 2020 is 0.62152% percent and the limit factor is 1% percent, meaning that the taxes levied in the City of Lakewood in 2020 for collection in 2021 will be less than the increase authorized by state law, except for the amount resulting from new construction and improvements to property, newly constructed wind turbines, and any increase in the value of state-assessed utility property;

WHEREAS, RCW 84.55.0101 provides for use of a limit factor of 101 percent or less with a finding of substantial need by a majority plus one councilmembers;

WHEREAS, the economic downturn was not caused by the economic problems or financial management but rather the result of the global COVID-19 pandemic. The City ended fiscal year 2019 in a healthy financial position with General Fund unreserved ending fund balance at \$4.7 million. This is due to the City Council’s adopted financial policies that include strong policies on reserve levels for the City’s operating funds along with conservative revenue estimates and department expenditure savings. The financial policies ensure that by the end of 2021 and 2022, General Fund reserves shall be at least 12% of General and Street O&M operating revenues. The 2021/2022 proposed biennial budget meets the City’s 12% policy objective. However, the City had to temporarily suspend certain aspects of the financial policies in terms of ongoing revenues supporting ongoing expenditures (used 2019 unreserved ending fund balance) and deferred the collection of replacement reserves for fleet and equipment for both 2021 and 2022 and information technology and property management in 2021. The collection of replacement reserves will be re-evaluated as part of the mid-biennial review that will begin as early as April 2021 and reinstated if funds are available. Additionally, the City has the following collective bargaining agreements that are either in negotiations or are set to expire: AFSCME (American Federal, State, County, and Municipal Employees) and Teamsters (current contracts expire 12/31/2021); and LPIG (Lakewood Police Independent Guild (current contract expires 12/31/2020). The financial impact will not be

known until the agreements are in place. Labor costs have and are expected to continue to increase above 1%. Annual step increases range from 2% to 6.1% on top of cost of living adjustments (COLA) depending on the labor group.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF LAKEWOOD, WASHINGTON DO ORDAIN as follows:

SECTION 1. A finding is made of substantial need under RCW 84.55.0101, which authorizes the use of a limit factor of 101 percent for the property tax levy for 2021.

SECTION 2. Severability. The provisions of this ordinance are declared separate and severable. The invalidity of any clause, sentence, paragraph, subdivision, section, or portion of this ordinance or the invalidity of the application thereof to any person or circumstance, shall not affect the validity of the remainder of this ordinance, or the validity of its application to other persons or circumstances.

SECTION 3. Corrections. The City Clerk and the codifiers of this ordinance are authorized to make necessary corrections to this ordinance including, but not limited to, the correction of scrivener/clerical errors, references, ordinance number, section/subsection numbers and any references thereto.

SECTION 4. Effective Date. That this Ordinance shall be in full force and effect five (5) days after publication of the Ordinance as required by law.

ADOPTED by the City Council this 16th day of November, 2020.

CITY OF LAKEWOOD

Don Anderson, Mayor

Attest:

Briana Schumacher, City Clerk

Approved as to Form:

Heidi Ann Wachter, City Attorney