

Memorandum

Date: November 12, 2015

To: The Honorable Mayor and City Council

From: Cindy Epperson, Director of Finance and Budget

Re: 2016 Property Tax Levy

Background

State law requires several administrative and legal steps to establish the property tax levy. This agenda item includes two (2) separate ordinances. Ordinance A and B will set the property tax levy for collection in 2016, based on the limit of a 1% increase (or the rate of inflation, whichever is less) over the prior year base levy, plus new levies for construction and annexation. The law defines the rate of inflation as measured by the Implicit Price Deflator (IPD) for consumer goods. For this year, the IPD increased by 0.25% from June 2014 to June 2015. Since this is less than the statutory 1%, our property tax increase is limited to a 0.25% increase. However, state law does allow the property tax to be levied at the 1% maximum, by a super-majority (i.e. 5-2) vote of Council declaring the existence of "substantial need" for the increase. The 2016 budget was developed assuming a 1% increase.

Exhibit I details the calculation of the property tax levy with a base of 101% of the prior year using preliminary information obtained from the County Assessor's office. According to state law, the certification of ad valorem taxes must be filed with the Board of Yakima County Commissioners on or before November 30, 2015 or the City will receive no funding from this source in 2016. The Commissioners have requested to receive this packet by November 20 so they can incorporate all of the requests into their required legislation.

Ordinance purposes are:

Ordinance A identifies Council's intent to authorize an increase in the tax levy over 2015 levels. Because the limit factor is greater than the rate of inflation, this ordinance requires a super-majority (i.e. a minimum affirmative vote of five members) to pass. It is required by RCW 84.55.120. This is legally necessary to increase the 2016 tax collections by any amount over 2015 levels.

Ordinance B fixes the tax levy for collection by the City in 2016. This ordinance would include not only the regular tax but also special levy taxes for bond repayments. It should be noted that all voted bond issues were paid in full in 2014, so the 2016 levy does not include a special bond levy. This ordinance complies with RCW 35.33.135 and in accordance with Article VII, Section 2 of the City Charter, also requires a super-majority approval by City Council.

These ordinances are in substantially the same format as the prior year levy legislation, with the exception of the additional declaration of substantial need in Ordinance A.

General Government Revenue Discussion

In reviewing General Government revenue, there are 4 revenues that each make up approximately one fourth of the total—i.e. there are four “legs” that support General Government operations. Sales Tax (including the City’s allocation of both county-wide Criminal Justice sales taxes) represents about 27% of the total. Property tax as proposed is about 23%; Utility Taxes as presented in the Preliminary Budget make up about 22%; and all other revenue comprise the remaining 28%. (See Attachment 1 for a summary of General Government revenues.)

2015 General Government revenue is estimated to be \$70.9 million, \$3.5 million or 5.2% more than 2014, primarily because of the contract with Union Gap that added \$1.2 million. Additionally, the city experienced sales tax growth of about 4%; and was successful in obtaining a Firefighter hiring grant (SAFER) and an airport marketing grant. Going into 2016, Sales and utility tax revenues are projected to grow as a result of ongoing economic development in our community so that revenues are forecast to grow by \$2.5 million or 3.5% from the 2015 estimate, (and \$1.8 million or 2.6% from the 2015 Budget).

The proposed 1% increase in Property Tax is projected to be \$176,000 in 2016. The initial estimates from the County on the 2016 property tax levy included a growth rate for new construction that is 1.2% or \$209,000, along with a refund levy of about \$97,000 which approximates the budget estimate when added together.

Property Tax Discussion

The total 2016 City of Yakima property tax levy includes the 101% levy, and amounts for new construction and prior year refunds. The 2016 budget currently includes an estimated revenue of \$18,026,000 for the regular levy, an increase of \$439,000 over the 2015 year-end estimate of \$17,587,000. There is no voted levy debt, since the 1995 voted Fire bond issue paid in full in 2014. The total operating tax rate for next year is estimated to be \$3.111 per \$1,000 of Assessed Valuation (AV), down from the 2015 rate of \$3.1239. (The statutory limit is \$3.60 less the Library levy, which is capped at 50 cents per \$1,000. The estimate for the 2016 Library levy is 47.4 cents per thousand) It should be noted that the amounts included in the budget differ from the levy as shown in attached Exhibit I because of the timing of collections. In other words the budget is built on collection estimates of the levy.

A home with an assessed value of \$150,000 in 2015 paid \$468.59 for the regular levy—this was the first year without a voted bond levy. (According to the preliminary valuation estimate provided by the County Assessor, the underlying assessed value of all taxable property in the City grew a little more than 1%). The regular levy tax is estimated to be \$466.65, and there is no voted levy so there is a slight **decrease of (\$1.94) in the total annual levy**.

We believe the current request for the property tax levy is justified by the following conditions, which combine to indicate the City has a substantial need to increase the levy to the statutory maximum of 1%:

1. The property tax is needed to help meet mandates and contractual obligations, principally Public Safety pensions/medical costs. Attachment 2 demonstrates the amount of property taxes dedicated to these areas.
2. In the Street budget, property tax represents about 66% of all revenue in this budget. (see Attachment 3). Investing in maintaining and repaving the City streets has been a

high Council priority for several years. The other major revenue source in this fund is Gas Tax, which is based on a “per gallon” charge. The economic downturn created a “new normal” in consumption -- the 2016 gas tax estimate is about equal to 2007 levels.

3. Property tax is also a key revenue source for the Parks and Recreation Division, representing about 48% of all Parks revenue. Parks maintenance is supported entirely by property taxes, along with the funding of the new City Charter amendment to spend \$750,000 on Parks capital project. Other programs such as the Senior Center and Aquatics are supported in part by the property tax. The cost to maintain and operate these facilities increases annually. (Also see Attachment 3).
4. Again this year, the City **is not** expected to collect the full levy because of senior citizen exemptions, delinquent taxes and other refunds for disputed values. For the year 2016, the City is estimating a reduction of up to 2.3% in actual collections from the authorized levy, offset by a portion of delinquent taxes that are predicted to be collected.
5. Yakima's per capita property tax ranks \$84 below the average of comparable Washington cities with populations of 50,000 to 135,000 in 2014, the most recent year this information has been compiled. Yakima ranks 9th out of 11 cities in this group. Further, for these same cities, Yakima's total per capita revenue collected from all taxes, fees and charges is \$1,561 or \$582 less than the average of \$2,143 and again ranks 9th out of the 11 cities. Our residents are currently taxed and/or charged substantially less than other similar size cities. (See Attachments 2 & 4).
6. Finally, the City's current property tax levy represents only 24% (approximately 1/4) of the total property taxes paid by City residents. The State, local School District levies and County government receive approximately 3/4 of all property taxes paid. (See Attachment 5).

In conclusion, property tax is a vital component of General Government revenue. Based upon the previous discussion, City management/budget staff respectfully requests the passage of both Ordinances A and B to set the 2016 property tax levy, which is the basis on which the 2016 budget was developed. If a super-majority does not approve “substantial need” to go to the 101%, then the ordinance will need to be modified for the increase to be 100.25%, and the requested amount will be reduced by \$132,570 from \$18,208,602 to \$18,076,032. Since the General Government budget is virtually balanced, with revenues slightly exceeding expenditures by about \$31,000, a reduction in property taxes of \$132,000 would result in a budgeted use of about \$100,000 of reserves, unless Council directs a reduction in expenditures.